

Quiz on Efficient Unemployment and Unemployment Gap

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Question 1

From a social perspective, what are the costs of lowering unemployment?

- A) Lowering unemployment increases the number of people who are out of the labor force.
- B) Lowering unemployment increases the share of workers who are devoted to recruiting.
- C) Lowering unemployment increases the share of workers who are devoted to producing.
- D) Lowering unemployment reduces the wage of employed workers.
- E) Lowering unemployment raises the wage that firms must pay their employees.
- F) Lowering unemployment has no social cost so it is efficient to bring unemployment all the way to 0%.

Question 2

From a social perspective, what are the costs of raising unemployment?

- A) Raising unemployment lowers the number of people who are out of the labor force.
- B) Raising unemployment increases the number of workers who are devoted to recruiting.
- C) Raising unemployment lowers the number of workers who are employed.
- D) Raising unemployment reduces the wage of employed workers.
- E) Raising unemployment lowers inflation below the 2% target.

Question 3

Under which condition is the unemployment rate efficient in a matching model?

- A) For any wage mechanism.
- B) If wages are rigid enough.
- C) If wages are determined by Nash bargaining.
- D) If wages are determined by Nash bargaining and satisfy the Hosios condition.
- E) There is no wage mechanism that ensures efficiency.

Question 4

Consider a model with a Beveridge curve. Let ϵ be the elasticity of the Beveridge curve, κ be the recruiting cost, and ζ be the social value of nonwork. Which condition is satisfied by labor market tightness θ when the labor market operates efficiently?

- A) $\theta = (1 - \zeta)/\kappa$
- B) $\theta = [(1 - \zeta)\kappa]/\epsilon$
- C) $\theta = [(1 - \zeta)\epsilon]/\kappa$
- D) $\theta = \beta$, where β is workers' bargaining power
- E) $\theta = (1 - \zeta)/(\kappa\epsilon)$
- F) $\theta = (\kappa\epsilon)/(1 - \zeta)$
- G) None of the above

Question 5

What are the characteristics of the unemployment gap in the United States?

- A) The unemployment gap is always about zero.
- B) The unemployment gap is generally positive and sharply procyclical.
- C) The unemployment gap is generally negative and sharply procyclical.
- D) The unemployment gap is generally positive and sharply countercyclical.
- E) The unemployment gap is generally negative and sharply countercyclical.
- F) It is not possible to measure the unemployment gap.

Question 6

Given the social costs and benefits of unemployment, would it be optimal for the government to bring the unemployment rate all the way to 0%?

- A) In general yes; but no if the social value of unemployment is zero

- B) In general no; but yes if recruiting costs are zero
- C) Always no
- D) Always yes
- E) In general no; but yes if the social value of unemployment is zero

Question 7

According to the work of Hosios (1990), which condition must be satisfied for the labor market to operate efficiently?

- A) $\beta = \eta$, where β is workers' bargaining power and η is the elasticity of the matching function with respect to unemployment.
- B) $\beta = 1 - \eta$, where β is workers' bargaining power and $1 - \eta$ is the elasticity of the matching function with respect to vacancies.
- C) $\theta = 1$, where θ is the labor market tightness.
- D) The surplus received by firms = the surplus received by workers.
- E) None of the above.

Question 8

Consider a matching model with linear production function, Cobb-Douglas matching function, and Nash bargaining. Let η be the elasticity of the matching function with respect to unemployment and $1 - \eta$ the elasticity of the matching function with respect to vacancies. Let β be workers' bargaining power and $1 - \beta$ be firms' bargaining power. Let r be the recruiting cost, measured in recruiters per vacancy. Let z be the social value of nonwork relative to work: $z = 0$ means that unemployed workers do not contribute to social welfare; $z = 1$ means that unemployed workers contribute as much to social welfare as employed workers. Which of the following statements are correct?

- A) The efficient labor-market tightness is increasing in η .
- B) The efficient labor-market tightness is decreasing in η .
- C) The efficient labor-market tightness is increasing in z .

- D) The efficient labor-market tightness is decreasing in z .
- E) The efficient labor-market tightness is increasing in r .
- F) The efficient labor-market tightness is decreasing in r .
- G) The efficient labor-market tightness is increasing in β .
- H) The efficient labor-market tightness is decreasing in β .