

1. Unemployment: introduction
 - Definition of unemployment, unemployment rate
 - Basic trends and cycles
 - Unemployment rate differences by education, race, etc.
 - Duration of unemployment
2. Sources of unemployment
 - Frictional: people between jobs
 - Seasonal
 - Structural: do to changing structure of labor demand, imperfect mobility
 - Cyclical
3. Employment dynamics
 - Worker flows between different employment states
 - Suppose ℓ = rate at which workers leave employment, h = rate at which unemployed are hired
 - Steady-state unemployment: number of job leavers = ℓE = number hired = hU , where E = number employed and U = number unemployed

This implies that: $unemp\ rate = \frac{U}{LF} = \frac{\ell}{\ell + h}$

 - Interpretation: rate of job loss and duration of unemployment determine unemployment rate
 - Unemployment spells: most spells are short, but a few are quite long
4. Job search
 - Wage offer distribution
 - Sequential search: accept first offer that meets or exceeds *asking wage*
 - Determination of asking wage: marginal benefit and marginal cost of rejecting an offer and waiting for a better one
5. Unemployment insurance and job search
 - Basic program terms: workers who meet certain eligibility requirements can collect unemployment compensation. Level of benefit depends on weekly wage when employed, subject to minimum and maximum that varies by state
 - Replacement ratio: proportion of weekly earnings replaced by UI benefits. On average about 36%, but varies by state, skill level
 - Theory predicts: By lowering opportunity cost of unemployment, UI shifts the MC curve down, lengthening unemployment spells and increasing accepted offer wages
 - Evidence consistent with theory: increase in replacement ratio of around 25% increases average duration of unemployment by about 20%, or 3-4 weeks for a typical worker; increase in replacement ratio of around 10% increases average wage offer of male by about 7%, female about 1.5%
 - Financing of UI: experience rating. Firms pay taxes into the UI system based on their past layoff rate. But there are minimum and maximum tax rates, so imperfect experience rating. This may favor using layoffs

Homework for Thursday, November 29: Please prepare a 5-minute class presentation on your final data project. Happy Thanksgiving!