

1. Unemployment insurance and job search
 - Review of job search model
 - Basic UI program terms: workers who meet certain eligibility requirements can collect unemployment compensation.
 - 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

2. Efficiency wages and unemployment
 - Efficiency wage concept: Individual worker effort is an increasing function of the wage
 - Why? One possibility is due to imperfect monitoring (other possibilities include nutrition, fairness)
 - Suppose a worker's utility is $V = w - e$, where $e =$ effort. e is either $E > 0$, or 0
 - The employer can observe the worker's effort with probability $q < 1$. If the worker is caught shirking ($e = 0$), she is fired and receives job-loss utility $= F$. Therefore, the worker will put in effort E if
$$w - E > qF + (1 - q)w \quad \text{or} \quad w > F + \frac{E}{q} \quad (\text{no-shirking constraint})$$
 - In the absence of unemployment, F would be $w - E$. This would violate the no-shirk constraint, so there must be unemployment!
 - Given the wage, F is lower if the unemployment rate is higher, due to the higher probability of being unemployed. This gives the employer a "bigger stick" (threat of unemployment), and the wage premium need not be as large. Thus we can draw a "no-shirking supply curve" that relates the efficiency (no-shirk) wage and the employment level relative to full employment
 - Effects of economic fluctuations on wages and unemployment when there are efficiency wages
 - Effects of more generous unemployment insurance
 - Alternatives to efficiency wages in securing worker effort

3. Inflation and unemployment
 - The Phillips Curve
 - Natural rate of unemployment (NAIRU)
 - Downward wage stickiness and unemployment: is zero inflation or deflation a good thing?

Homework for Thursday, November 29: Please prepare a 5-10 minute presentation on your final data project. Present some regression results if possible, but if not, just explain the topic and what you plan to do with the data.

Final exam information: see other side

Economics 150
Fall 2001
Final exam information

When: Wednesday, December 5, 9:10 a.m.
Format: Problems and short answers, maybe some multiple choice, no blue book needed
What to bring: Something to write with, calculator, one sheet of notes (both sides OK)
Weight: The final, like the midterm, is 20% of your course grade.
Coverage: Second half of the course (but including labor demand)

Topics outline:

1. Labor demand and elasticity: marginal product theory; short-run and long-run
2. Monopsony
3. Employment effects of minimum wage
4. Globalization and labor markets
5. Compensating wage differentials
6. Human capital model: effects of education and experience
7. Signaling model
8. Unemployment

Readings covered:

Notes on Labor Economics, chapters 5-6
Card and Krueger
Rodrik
Smith
Weinberger
Weiss
Borjas on unemployment (handout)