

Abstract

More than half of the unemployed in the U.S. are not insured. For them the provision of employment-dependent UI creates an additional benefit from work: future UI eligibility. This paper explores the overall and distributional effects of providing unemployment insurance under partial coverage. I extend a standard search model to accommodate insured and uninsured workers, where insurance eligibility status is determined by previous separation history. While the effect of unemployment insurance on unemployment duration and post unemployment wages is theoretically ambiguous, a calibration of the model to the U.S. economy shows that unemployment insurance raises the unemployment rate. In addition I show that wage gaps and unemployment duration differentials between the uninsured and insured exist and are larger during recessions.

J.E.L. Classification: J31, J65

Keywords: Unemployment insurance, insurance eligibility