Abstract
In the US, unemployed workers must satisfy two requirements to receive unemployment insurance (UI): a tenure requirement that stipulates the minimum qualifying work spell and a monetary requirement that determines a past minimum weekly wage. This paper develops a heterogeneous agents model with history-dependent UI benefits built on stylized facts of the US economy in order to quantitatively obtain an optimal UI program design. We first conduct an empirical analysis using the discontinuity of UI rules at state borders and find that a tenure requirement induces a more prolonged employment spell. In contrast, the monetary requirement decreases the number of employers and has a more substantial effect on UI applications. We use our quantitative model to rationalize these results. When the tenure requirement is long, workers tend to accept more low paying jobs to become eligible sooner to UI and protect themselves from risk. The monetary requirement has the opposite effect. As such jobs become non-eligible to the UI, they are then less attractive to workers. We show that, due to its effect of mitigating moral hazard, the monetary requirement can generate higher welfare levels than an increase in the length of the tenure requirement.

Keywords: Unemployment Insurance, UI Eligibility, Optimal UI