

Practical Session X

UNEMPLOYMENT INSURANCE, DISABILITY INSURANCE, AND WORKERS' COMPENSATION

Questions and Problems:

1. Gruber (2000) found evidence that the elasticity of labor supply with respect to disability insurance (DI) benefits is considerably smaller than the estimates of the elasticity of unemployment durations with respect to UI benefits. Why might moral hazard be less of an issue in the DI program than in the UI program?

POVERTY ALLEVIATION

1. Senator Ostrich suggests that “in order to end poverty, all we need to do is pay everyone making less than the poverty line the difference between what they are earning and the poverty line.” Ostrich argues that, based on the set of people currently below the poverty line, this would cost \$98 billion per year. Why is Ostrich understating the costs of this program?

2. An issue that arises when designing a welfare system is whether to make the benefits available to all low-income families with children or only to families headed by a single mother. Explain the trade-offs involved in this decision.

HEALTH

1. Given that subsidized health care leads to increased health care usage, is this necessarily due to moral hazard? Explain.