

**Unemployment Insurance and Labor Market Transitions:
Evidence from the Covid-19 Pandemic**

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Abstract

To help the unemployed, the Federal Government expanded the weekly amount (Federal Pandemic Unemployment Compensation) and potential benefit duration (Pandemic Emergency Unemployment Compensation) of Unemployment Insurance (UI) benefits during the pandemic, along with the eligibility for benefits (Pandemic Unemployment Assistance). While these programs were set to expire in September 2021, around half of the states terminated some or all programs in advance. This thesis investigates whether the termination of each temporary UI program incentivized re-employment using difference-in-difference estimations. I document four new facts. Firstly, the early termination of all programs in June resulted in a 6-7 percentage point increase in the Unemployment-to-Employment (U-E) transition rates. The early termination of Federal Pandemic Unemployment Compensation (FPUC2) alone had negligible effects. Secondly, under strong assumptions, terminating Pandemic Emergency Unemployment Compensation and Pandemic Unemployment Assistance in advance (in addition to FPUC2) caused a roughly 5 percentage point increase in U-E transition rates. Thirdly, the employment effects of the early termination were short-termed and diminished by the end of 2021. Finally, the scheduled termination of these programs did not increase the U-E flow. Overall, the results infer that UI's expanded eligibility and longer potential duration, not the high benefit amount, reduced re-employment in 2021.

Keywords: Unemployment insurance; Covid-19; Labor market transition; Difference-in-differences

JEL classification: J64; J65