

The impact of monitoring and sanctioning on unemployment exit and job-finding rates

Job search monitoring and benefit sanctions generally reduce unemployment duration and boost entry to employment in the short term

Keywords: unemployment, job search, sanctions, monitoring

ELEVATOR PITCH

Unemployment benefits often reduce incentives to search for a job. Policymakers have responded to this behaviour by setting minimum job search requirements, by monitoring to check that unemployment benefit recipients are engaged in the appropriate level of job search activity, and by imposing sanctions for infractions. Empirical studies consistently show that job search monitoring and benefit sanctions reduce unemployment duration and increase job entry in the short term. There is some evidence that longer-term effects of benefit sanctions may be negative.

KEY FINDINGS

Pros

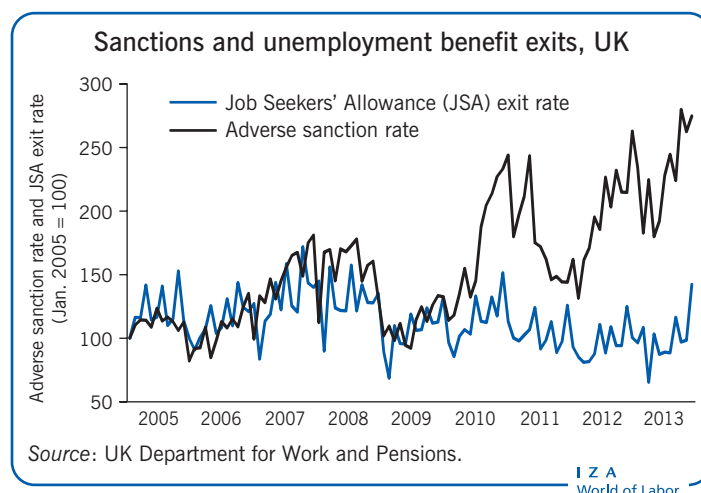
- ⊕ Most developed countries have some form of job search monitoring for unemployment benefit recipients and a system of benefit sanctions for infractions.
- ⊕ Even just the threat of benefit sanctions can reduce unemployment duration and increases job entry rates.
- ⊕ Being sanctioned reduces unemployment duration following the sanction and increases the rate of job entry.
- ⊕ Job search monitoring leads to shorter unemployment duration and higher job entry rates in the short term.
- ⊕ There is enough evidence to question recent moves in some countries to relax such measures.

Cons

- ⊖ There is some evidence that being sanctioned can lead to withdrawal from the labor force and a reduction in post-unemployment earnings.
- ⊖ More research is needed to examine the effects of monitoring and sanctions in a wider range of contexts, on a wider range of outcomes, and over a longer time frame.

AUTHOR'S MAIN MESSAGE

Evidence is growing that job search monitoring and benefit sanctions for infractions reduce the duration of unemployment and increase the rate of job entry. There is also some evidence that such measures can drive people out of the labor force and may reduce the quality of job matches. Substantial gaps in the evidence base remain, however. Nevertheless, there is enough evidence to question recent moves in some countries to relax such measures.



MOTIVATION

Job search monitoring and sanctions for failing to search actively enough are widely used in Organisation for Economic Co-operation and Development (OECD) countries. These measures are intended to counteract the search disincentive effects of unemployment insurance. But do they work?

Job search monitoring and sanctions

Job search monitoring is the process of checking whether unemployed workers are engaging in sufficient search activity to qualify to receive unemployment benefits or unemployment insurance. This can mean checking up on search methods, time spent searching, and employer contacts made. Monitoring is usually backed up by the threat of withdrawing benefits (sanctions) for people who are not sufficiently active in their job search. Benefit sanctions may also be imposed for declining a suitable job offer or for other administrative infractions.

Economic theory posits that such measures will increase search intensity and reduce the reservation wage (the wage below which a person prefers to remain unemployed), thereby increasing the exit rate from unemployment benefits and the job entry rate [1]. Unlike with training programs, there is no reason to expect lock-in effects—effects that reduce job search while people are participating in the program—from monitoring and sanctions [2]. On the other hand, tougher monitoring or stricter sanctions may lead job seekers to substitute formal (monitored) job search for informal (unmonitored, such as word-of-mouth) job search, which could have ambiguous effects on unemployment duration and job entry rates, depending on which type of search is more effective [2]. Further, the reduction in the reservation wage may lead to lower-quality job matches. Monitoring and sanctions might also drive some unemployed workers out of the labor force altogether.

This theoretical ambiguity makes empirical evidence particularly important. There is a growing body of studies that provides credible evidence, although substantial gaps remain. This paper reviews this literature on the effects of monitoring and sanctions, restricting attention to studies published in peer-reviewed journals, together with a handful of recently released working papers. The literature is fairly young—in part reflecting the newness of these measures—with most studies published in the last ten years.

DISCUSSION OF PROS AND CONS

Most unemployment benefit systems have had basic eligibility requirements since their inception, such as being available for work, registering with the employment service, and accepting suitable job offers. But only since the mid-1990s have most OECD countries coupled these requirements with monitoring and sanctions.

The regularity of monitoring and the toughness (duration, coverage, and severity) of sanctions vary across countries and over time within countries. For example, Portugal requires fortnightly proof of job search activity at face-to-face meetings with advisors, and benefits are cancelled for refusing a placement or suitable job offer or for failing

to provide sufficient evidence of job-searching. In contrast, Sweden requires no proof of job search activity, and sanctions entail only partial reductions in benefits, and only for a limited period. There is also variation across and within countries in the extent to which sanctions are enforced, although this is more difficult to quantify. This variation may itself be associated with the toughness of sanctions and other aspects of the unemployment insurance regime, such as the duration of benefits.

Empirical evidence on the impact of search monitoring

Although there is an extensive empirical literature on the combined effects of reforms of search requirements, monitoring, and search assistance for unemployment benefit recipients, there are fewer studies that separately distinguish the effects of changes in job search monitoring from changes in these other aspects of the benefit regime. This literature has focused on the effects of monitoring on benefit recipients, mostly ignoring potential monitoring effects on inflows to unemployment, with partial exceptions [3], [4].

Six studies that credibly separate the effects of monitoring from those of other aspects of unemployment insurance reform packages and from selection effects are reviewed here (Figure 1). Three of the studies randomly assigned subjects into treatment and control groups (randomized controlled trials)—two in the US and one in Hungary. The remaining three studies used quasi-experimental approaches that exploit non-random but plausibly exogenous assignment to treatment and control groups to identify monitoring effects.

Selection effects

Selection effects are differences in observed and unobserved characteristics between those who experience a change in the monitoring regime and those who do not, which are themselves correlated with outcomes.

Four of the six studies report positive and statistically significant effects of job search monitoring on unemployment exit rates and/or job entry rates, corresponding with reduced unemployment duration. The magnitude of these estimated effects vary—there are differences in the extent of the changes in monitoring being studied—but in a fairly narrow range. For example, one study finds that tougher monitoring leads to a 10% reduction in unemployment benefit duration [3], another finds a 10–16% reduction in unemployment duration [5], and a third finds a 23% increase in the probability of finding employment within eight months [6].

The other two studies report positive but statistically insignificant monitoring effects on unemployment exit rates or job entry rates. In one case, this may reflect the combination of small sample size and fairly minor changes to monitoring intensity [7]. The other study, which examines a larger change in monitoring intensity, also finds no overall statistically significant effect but does report statistically significant and positive effects on job entry rates for women aged 30 years and above [8]. It also finds evidence that the size of the monitoring effect on job entry varies negatively with the local unemployment rate.

Figure 1. Empirical studies of the effects of job search monitoring

Study	Where and when	Data	Study type	Key results
Klepinger, D. H., T. R. Johnson, and J. M. Joesch. "Effects of unemployment insurance work search requirements: The Maryland experiment." <i>Industrial and Labor Relations Review</i> 56 (2002): 3–22 [3]	US (Maryland, six unemployment offices), 1994	Administrative $n = 23,758$, tracked for one year; wage data for up to one year after exit	Experiment	Moving from no monitoring to tough monitoring: <ul style="list-style-type: none"> • reduces benefit duration by 10% • no effect on earnings
Ashenfelter, O., D. Ashmore, and O. Deschenes. "Do unemployment insurance recipients actively seek work? Evidence from randomized trials in four US states." <i>Journal of Econometrics</i> 125 (2005): 53–75 [7]	US (one local area in each of four states), 1984–1985	Administrative, supplemented with information on job applications $n = 4,632$	Experiment	Monitoring intensity: <ul style="list-style-type: none"> • no significant effect on benefit duration
McVicar, D. "Job search monitoring intensity, unemployment exit and job entry: Quasiexperimental evidence from the UK." <i>Labour Economics</i> 15 (2008): 1451–1468 [5]	UK (Northern Ireland), 1999–2005	Administrative $n = 388,359$ unemployment benefit spells (for 171,598 individuals)	Natural experiment (rollout of regime change across local areas)	Withdrawal of monitoring: <ul style="list-style-type: none"> • increases benefit duration by 10–16% as a result of reduced job entry and reduced switching to other benefits
McVicar, D. "Does job search monitoring intensity affect unemployment? Evidence from Northern Ireland." <i>Economica</i> 77 (2010): 296–313 [4]	UK (Northern Ireland), 1997–2005	Unemployment insurance register data aggregated to 35 local areas; observed monthly for 100 months $n = 3,500$	Natural experiment (rollout of regime change across local areas)	Withdrawal of monitoring for 8 months: <ul style="list-style-type: none"> • increases the stock of people receiving benefits by 8–12% as a result of reduced outflows
Micklewright, J., and G. Nagy. "The effect of monitoring unemployment insurance recipients on unemployment duration: Evidence from a field experiment." <i>Labour Economics</i> 17 (2010): 180–187 [8]	Hungary (six counties), 2003	Administrative $n = 2,134$	Experiment	Change in monitoring intensity: <ul style="list-style-type: none"> • no significant effect on benefit duration or job entry, on average • increases job entry rate for women aged 30+ by 50% • size of effect is negatively correlated with local unemployment rate
Cockx, B., and M. Dejemeppe. "Monitoring job search effort: An evaluation based on a regression discontinuity design." <i>Labour Economics</i> 19 (2012): 729–737 [6]	Belgium (Flanders), 2001–2006	Administrative $n = 2,240$	Regression discontinuity design	New monitoring regime phased in by age group: <ul style="list-style-type: none"> • increase in job entry probability by 23% within 8 months (marginally statistically significant) • no significant effect on labor force withdrawal

A few of the studies look at the effects of monitoring on other outcomes, with mixed results. One finds a significant effect on switching from unemployment benefits to other welfare benefits, interpreted as a move out of the labor market [5]. Another finds no effect on dropping out of the labor force [6]. One study examines monitoring effects on earnings in the year following the initiation of the unemployment insurance claim, and finds little impact [3]. It also finds no significant effect on the probability of re-entering unemployment within a year. Another study finds a small reduction in inflows to unemployment resulting from suspension of search monitoring, perhaps caused indirectly by reduced outflows from unemployment and the resulting removal of high-risk individuals from the at-risk population [4].

Empirical evidence on the effect of benefit sanctions

The sanctions literature has concentrated on estimating the effects of sanctions imposed on current recipients of unemployment benefits, mostly ignoring the effect of eligibility restrictions (such as voluntarily leaving a job) on inflows. Sanctions on unemployment benefit recipients can be imposed for failing to search actively for a new job, rejecting a suitable job offer or offer of a placement in an employment or training program, and for violating other administrative requirements, such as failing to show up for advisor interviews.

Both the threat of sanctions (the ex ante or threat effect) and the imposition of sanctions (the ex post effect) can affect the behavior of unemployed workers receiving benefits. Most of the sanctions literature focuses on the ex post effects, despite the potential importance of ex ante effects. In jurisdictions where workers who have committed an unemployment insurance program infraction receive warning letters before a sanction is imposed, the ex post sanction effect can be separated into a warning effect (that a sanction is or may be coming) and an imposition effect once the sanction has been imposed.

Figure 2 summarizes ten empirical studies of the effects of sanctions that have a clear strategy for dealing with the main identification problem: separating the effects of sanctions from the effects of differences in observed and unobserved characteristics between unemployed workers who receive a sanction and those who do not (selection effects). Specifically, it seems likely that unemployed workers who receive a sanction have characteristics that would otherwise reduce their probability of unemployment exit or job entry [9], [10]. Failure to account for this selection effect is likely to lead to underestimates of the effects of benefit sanctions on these outcomes.

In the absence of randomized controlled trials of sanctions, the studies rely on econometric analysis of administrative data, and most use the timing-of-events approach to estimate the ex post effects of sanctions. This approach exploits the exact timing of sanction events to identify causal effects. Although the approach is not without its critics, it is widely used and accepted, and its advantages generally outweigh its disadvantages.

All of the in-scope studies examine effects of sanctions using European data, and nearly all adopt the timing-of-events approach. These studies all find that receiving a sanction significantly increases the rate of exit from unemployment benefits, the rate of job entry, or both. The magnitude of these measured effects varies, but two upper-end estimates suggest that receiving a sanction more than doubles the unemployment benefit exit rate

Figure 2. Empirical studies of the effects of sanctions

	Where and when	Data	Study type	Key results
van den Berg, G., B. van der Klaauw, and J. C. van Ours. "Punitive sanctions and the transition rate from welfare to work." <i>Journal of Labor Economics</i> 22 (2004): 211–241 [9]	Netherlands (Rotterdam), 1994–1996	Administrative $n = 7,978$ spells (unemployed on social assistance)	Timing-of-events model	Receiving a sanction: • a positive effect on the job entry rate of 140%
Abbring, J. H., G. van den Berg, and J. C. van Ours. "The effect of unemployment insurance sanctions on the transition rate from unemployment to employment." <i>Economic Journal</i> 115 (2005): 602–630 [1]	Netherlands, 1992–1993	Administrative, $n =$ up to 40,973 spells (in 16 of 19 unemployment insurance agencies)	Timing-of-events model	Imposing a sanction: • a positive effect on the job entry rate of 58% for men and 67% for women • significant differences across unemployment insurance agencies
Lalive, R., J. van Ours, and J. Zweimüller. "The effects of benefit sanctions on the duration of unemployment." <i>Journal of the European Economic Association</i> 3 (2005): 1386–1417 [11]	Switzerland (3 cantons) 1997–1999	Administrative $n = 10,404$ spells	Timing-of-events model; local area variations in regime toughness	Receiving a sanction warning letter: • increases the unemployment benefit exit rate by 23% Receiving a sanction: • increases the unemployment benefit exit rate by 20% Stronger threat of sanctions: • reduces claim duration: a one standard deviation increase in the warning rate reduces claim duration by five days
Müller & Steiner (2008): <i>Imposed Benefit Sanctions and the Unemployment-to-Employment Transition: The German Experience</i> . IZA Discussion Paper No. 3483.	Germany 2001–2005	Administrative $n = 318,889$ spells (for 314,206 individuals) tracked for up to 4 years	Propensity score matching and hazard model	Receiving a sanction: • a positive effect on job entry rate in the short term but diminishing over time Receiving a sanction in first 3 months of benefits: • lowers the job survival rate by 8 percentage points at the end of 3 months • effect diminishes as the interval before a sanction is imposed increases
van den Berg, G., and J. Vikström. "Monitoring job offer decisions, punishments, exit to work, and job quality." <i>Scandinavian Journal of Economics</i> (Forthcoming) [13]	Sweden, 1999–2004	Administrative (unemployment and employment register data) $n = 16,491$ individuals (with 35,055 spells)	Timing-of-events model	Receiving a sanction: • a positive effect of 23% on the job entry rate • effects are smaller for men than women and for older workers and unchanged by education level or local unemployment rate • effects do not diminish rapidly over time • lowers wages by 3.8%, an effect that persists up to 4 years (as far as the data go) • increases the probability of a part-time rather than a full-time job by 15% (10 percentage points) • reduces the occupational level by 0.04 years of required schooling to do the job
Svarer, M. "The effect of sanctions on exit from unemployment: Evidence from Denmark." <i>Economica</i> 78 (2011): 751–778 [10]	Denmark 2003–2005	Administrative $n = 219,348$ spells (for 164,962 individuals)	Timing-of-events model	Receiving a (first) sanction: • increases the unemployment benefit exit rate by more than 100% for both men and women • some groups are more responsive than others (male immigrants compared with male natives, marrieds compared with singles)

Figure 2. Continued

Study	Where and when	Data	Study type	Key results
				<ul style="list-style-type: none"> • effect disappears after 3 months • tentative evidence that sanction amount is positively linked to exit effect
Hofmann (2012): "Short-and long-term ex post effects of unemployment insurance sanctions." <i>Journal of Economics and Statistics</i> 232 (2012): 31–60.	Germany 2000–2001	Administrative $n \approx 400,000$ spells	Propensity score matching	Receiving a sanction: <ul style="list-style-type: none"> • for women, increases the time employed in regular jobs over 12 months by up to 0.9 months and in other jobs by 0.6 months, with no effect on time out of the labor force • for men, increases the time employed in regular jobs by up to 0.8 months, decreases the time in other jobs by up to 0.2 months, and increases the time out of the labor force by up to 0.7 months
Arni, P., R. Lalive, and J. C. van Ours. "How effective are unemployment benefit sanctions? Looking beyond unemployment exit." <i>Journal of Applied Econometrics</i> 28:7 (2013): 1153–1178 [2]	Switzerland 1998–2003	Administrative $n = 23,961$ spells	Timing-of-events model	Receiving a sanction warning: <ul style="list-style-type: none"> • increases job entry rate by 17% and exit from the labor market by 89% • lowers earnings (when combined with receiving a sanction) by 9% Receiving a sanction: <ul style="list-style-type: none"> • increases job entry rate by 16% and exit from the labor market by 67% • lowers earnings (combined with warning) by 9% and job duration by 15% Being in a high-sanction area <ul style="list-style-type: none"> • increases job entry and lowers earnings
Hillmann & Hohenleitner (2012): <i>Impact of Benefit Sanctions on Unemployment Outflow: Evidence from German Survey Data</i> . Hamburg Institute of International Economics Research Paper 129.	Germany 2005–2007	Panel household survey data $n = 3,996$ spells (for 3,599 individuals) (unemployment assistance)	Timing-of-events model	Receiving a sanction: <ul style="list-style-type: none"> • increases job entry rate by 68% and labor force exit rate by 79%
van der Klaauw, B., and J. van Ours. "Carrot and stick: How re-employment bonuses and benefit sanctions affect exit rates from welfare." <i>Journal of Applied Econometrics</i> 28 (2013): 275–296 [12]	Netherlands (Rotterdam) 2000–2003	Administrative $n = 28,039$ (individuals, with 30,527 spells)	Timing-of-events model	Receiving a sanction: <ul style="list-style-type: none"> • increases benefit exit rate by 21% for men and 47% for women Receiving a sanction during first year: <ul style="list-style-type: none"> • for men, has smaller effects than sanctions received later and effects are larger for married men • for women, has larger effects than sanctions imposed later

and the job entry rate [9], [10]. In Switzerland, unemployment benefit recipients receive sanction-warning letters in advance of the imposition of a sanction, so the two studies using Swiss data are able to separately identify the effect of receiving a warning letter from that of receiving a sanction [2], [11]. The studies find similar effects in both cases on the unemployment benefit exit rate and the job entry rate.

Some studies examine evidence for heterogeneous effects of receiving a sanction. Two find larger positive effects on the job entry rate and benefit exit rate for women than for men in the Netherlands [1], [12]. One of them also finds differences in sanction effects across different (sectoral) unemployment insurance agencies [1]. A study on Sweden also finds a positive effect of receiving a sanction on job entry that is larger for women than for men, as well as differences in effect by age, but no difference by education level or local unemployment rate [13]. A study for Germany finds differences in sanction effects by age, with increases in regular employment driven primarily by younger unemployed workers receiving sanctions. Male immigrants in Denmark are found to be more responsive to sanctions than native male Danes, and married workers are more responsive than unmarried [10].

Examinations of whether the effects of sanctions vary by when in the unemployment spell they are imposed find mixed results. For Germany, one study finds that the effect of sanctions is weaker the further into the unemployment benefits period it is imposed. A study for the Netherlands finds a similar pattern for women, but the opposite for men [12]. Two studies find that the effect of receiving a sanction diminishes over the time that has elapsed since the sanction was imposed. Another study finds no effect of elapsed time [13].

Although the duration and severity of sanctions vary across countries, other cross-country differences make it difficult to draw general conclusions about the relationships among sanction duration, severity, and effects from this source. Some studies have exploited within-regime variation in sanction severity to examine this issue—with, however, mixed findings. One study finds no evidence for significant differences in effects between sanctions of different severity, although there is only limited variation in sanction severity in their data [9]. A study on Denmark finds evidence that more severe sanctions may have larger effects on the exit rate from unemployment benefits [10].

A few studies look at the effects of sanctions on other outcomes. Some find significant positive effects of sanctions on the probability of leaving the labor market [2]. A study on Sweden finds negative effects of sanctions on post-unemployment wages—consistent with a reduction in the quality of job matches—and on hours worked [13]. It also finds that these negative effects persist, and that they may increase in magnitude for up to four years after the return to work. A study on Switzerland finds a negative effect on post-unemployment wages averaged over 30 months and a negative effect on job duration [2].

Because few people actually receive sanctions in most countries, some researchers argue that the main way sanctions influence behavior is through their threat effect. Evidence from laboratory experiments with students is consistent with this interpretation. Of the ten studies considered here, only two examine the effects of the threat of sanctions using observational data. One finds evidence of a shorter duration of unemployment benefits in areas in Switzerland where the threat of sanctions is stronger than elsewhere [11].

Another study, also on Switzerland, finds a similar result, along with a positive effect on job entry rates [2].

LIMITATIONS AND GAPS

Despite a high degree of internal validity and a high degree of agreement concerning the direction of effects on short-term outcomes, the evidence on job search monitoring and benefit sanctions remains limited. First, evidence is available only for a limited number of (mostly European) countries, often at a very local level within the country or for particular subgroups of unemployed workers, which makes it difficult to generalize about the magnitude of the effects. Second, the literature has focused on a limited set of outcomes, with few studies examining monitoring or sanction effects on earnings and other job quality measures, on exit to anything other than employment or just overall exits, or on inflows to unemployment. Third, only one study examines longer-term effects. Fourth, few studies examine evidence for heterogeneous treatment effects across different groups of unemployed workers or in different labor market contexts. Fifth, all the studies adopt a partial-equilibrium approach, ignoring the potential for offsetting general equilibrium effects. Sixth, few studies examine evidence for sanction warning effects, despite their potential importance.

SUMMARY AND POLICY ADVICE

Job search monitoring and benefit sanctions increase the exit from unemployment benefits and job entry rates in the short term. With unemployment high in many OECD countries following the Great Recession, job search monitoring and benefit sanctions are likely to remain important policy tools. From this perspective, the fact that some OECD countries do not monitor the job search activities of unemployment benefit recipients or do not have strong sanctioning regimes in place appears puzzling, at first glance, as do recent moves in some countries (such as the Netherlands) to relax such measures. But there is also some evidence that monitoring and sanctions may have negative effects on labor force participation for some workers and, in the case of sanctions, on post-unemployment earnings in the longer term. Looking forward, policymakers will need to confront such trade-offs in the design and implementation of monitoring and sanctions policy. Substantial gaps in the evidence base remain, however, and research that addresses these gaps could influence future policy. Nevertheless, there is enough evidence to question recent moves in some countries to relax monitoring and sanctions.

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Competing interests

The IZA World of Labor project is committed to the *IZA Guiding Principles of Research Integrity*. The author declares to have observed these principles.

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Further reading

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