

Abstract:

This paper investigates the gig economy as a novel form of self-employment that addresses labor market risks. By employing a quantitative model that highlights its distinct features—such as easy entry and exit and lower earnings—this study finds that the gig economy effectively reduces unemployment rates, particularly benefiting low-skilled and asset-poor workers. Welfare analysis indicates aggregate gains, especially for unemployed individuals who are ineligible for unemployment insurance. Additionally, the gig economy's impact is closely tied to traditional labor market policies. Counterfactual analysis reveals that generous unemployment insurance benefits can discourage gig participation, resulting in greater welfare losses due to diminished insurance effects. Conversely, the gig economy may help mitigate the negative welfare impacts of higher firing costs by increasing gig participation.