Lecture Notes #4: Addendum

Measurement and Labor Markets

The following concepts are important in understanding how labor market activity is measured

**Working age population**: all persons age 16 or higher who are not institutionalized (jail, hospital, etc.)

**Labor Force**: all members of the working age population who are either employed or unemployed

**Unemployed**: the unemployed are those who are 1) not working but have tried to gain employment in the last 4 weeks, 2) waiting to return to a job from which the person was laid off, 3) waiting to start a new job within 30 days
Major Labor Market Indicators

Unemployment Rate:

\[ \frac{100 \times \text{number of unemployed}}{\text{labor force}} \]

Labor Force Participation Rate:

\[ \frac{100 \times \text{labor force}}{\text{working age population}} \]

Employment Rate:

\[ \frac{100 \times \text{number of people employed}}{\text{working age population}} \]
These different measures provide “snapshots” of the aggregate labor market.

The employment ratio has an “advantage” over the unemployment rate in that it a measure of labor market activity that is not affected by *discouraged workers*, i.e. individuals who have stopped looking for work and hence are not counted as members of the labor force.

But unemployment might be the more important measure when one is concerned about the wellbeing of individuals, since it captures the idea of individuals who wish to work but are not.
Additional Measures

1. **average real wages**: average real wages measure the quantity of goods and services that may be purchased from an hour of work.

2. **aggregate hours**: total number of hours worked in all full time and part time jobs. This measure accounts for part time employment, overtime, etc. in ways not captured by other measures.