

Labor Market Flows: A Macroeconomic Perspective

Toshihiko Mukoyama

Federal Reserve Board of Governors
and
University of Virginia

July 2012

Seminar at RCAST, University of Tokyo

Disclaimer

The views expressed in this seminar are those of the presenter and should not be interpreted as reflecting the views of the Board of Governors of the Federal Reserve System or of anyone else associated with the Federal Reserve System.

Outline

- ▶ Today I'll talk about how we (macroeconomists) look at the labor market.

Outline

- ▶ Today I'll talk about how we (macroeconomists) look at the labor market.
- ▶ I will emphasize the “flow approach to the labor market.”
This is the development of the field in the last 20 years or so.

Outline

- ▶ Today I'll talk about how we (macroeconomists) look at the labor market.
- ▶ I will emphasize the “flow approach to the labor market.” This is the development of the field in the last 20 years or so.
- ▶ I will try to make this talk to be accessible to the people who has no background in economics.

Outline

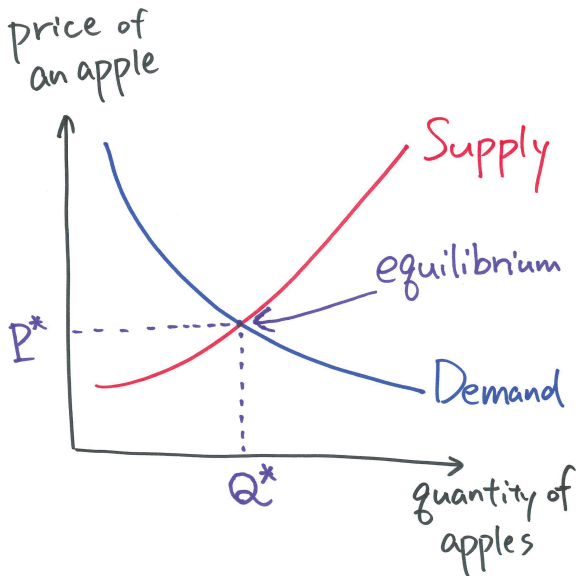
- ▶ Today I'll talk about how we (macroeconomists) look at the labor market.
- ▶ I will emphasize the “flow approach to the labor market.” This is the development of the field in the last 20 years or so.
- ▶ I will try to make this talk to be accessible to the people who has no background in economics.
- ▶ I'll mostly talk about the U.S. economy, but will try to touch upon the Japanese economy, too.

Outline

- ▶ Today I'll talk about how we (macroeconomists) look at the labor market.
- ▶ I will emphasize the “flow approach to the labor market.” This is the development of the field in the last 20 years or so.
- ▶ I will try to make this talk to be accessible to the people who has no background in economics.
- ▶ I'll mostly talk about the U.S. economy, but will try to touch upon the Japanese economy, too.
- ▶ I will spend most of the time talking from the workers' perspective (as opposed to the firms' perspective).

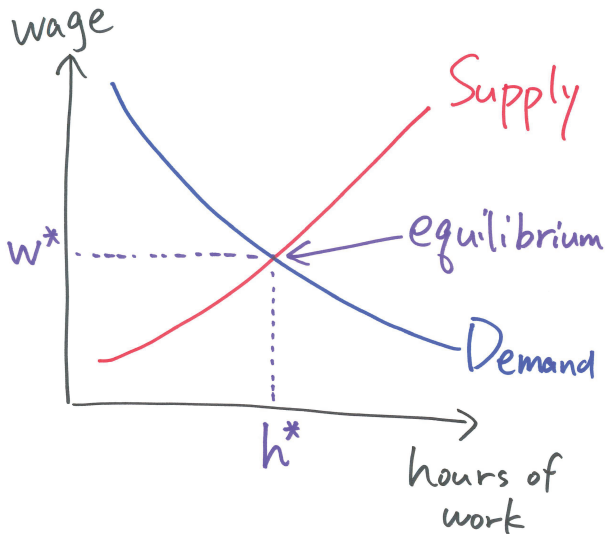
Comparison: labor market versus other markets

Econ 101: market equilibrium for apples



We can do the same for the labor market.

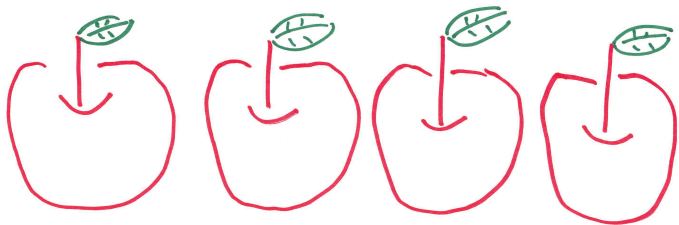
Econ 101: market equilibrium for labor



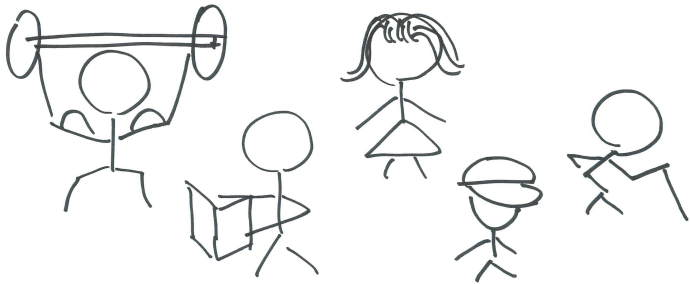
What's wrong with this?

Nothing is wrong.

But labor is quite different from apples.

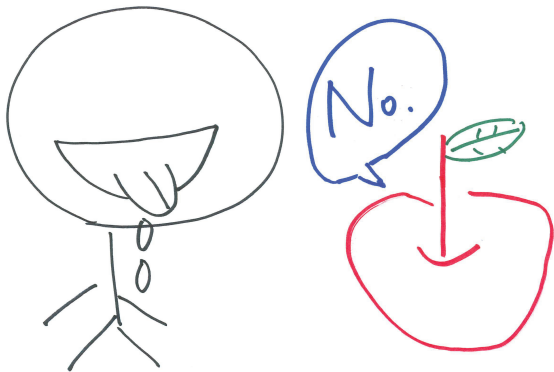


Apples are
homogeneous



Workers are
heterogeneous

Apples don't choose buyers



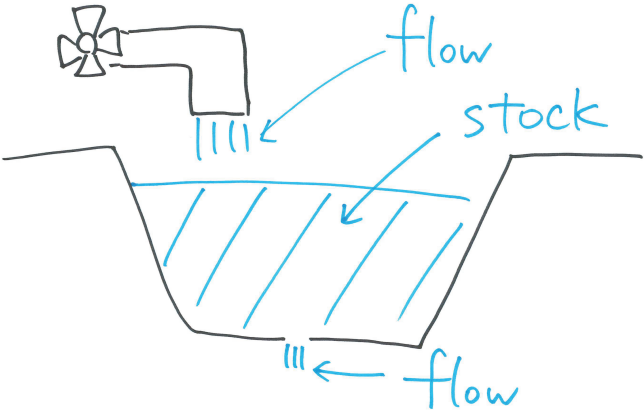
Workers choose where to work



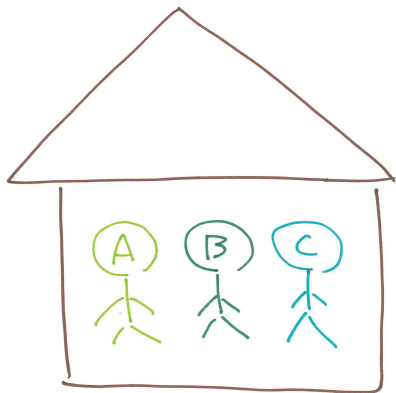
- ▶ So the market transaction for labor services is not as straightforward as for apples, and the labor market requires a special treatment.

Preparation: two sets of special concepts.

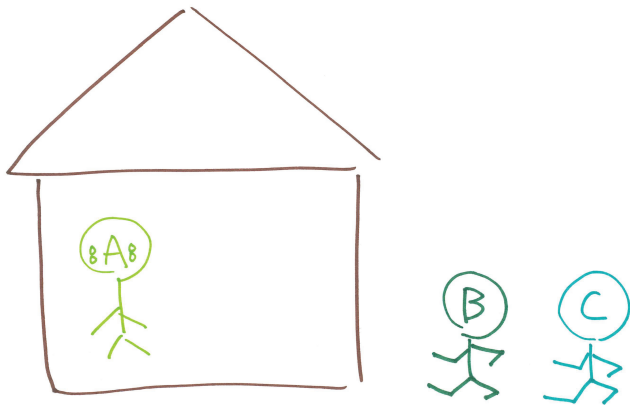
Flows and stocks



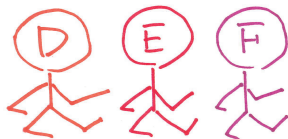
Gross and net (flows)



Gross and net (flows)



Gross and net (flows)



Gross and net



Gross :

3 gain

2 loss

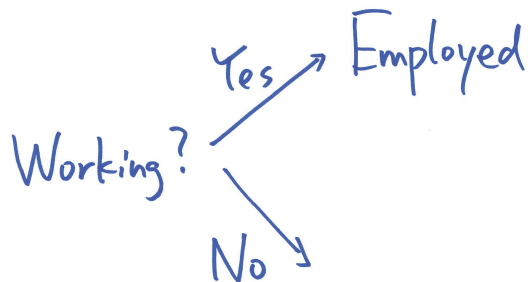
Net :

+1 gain

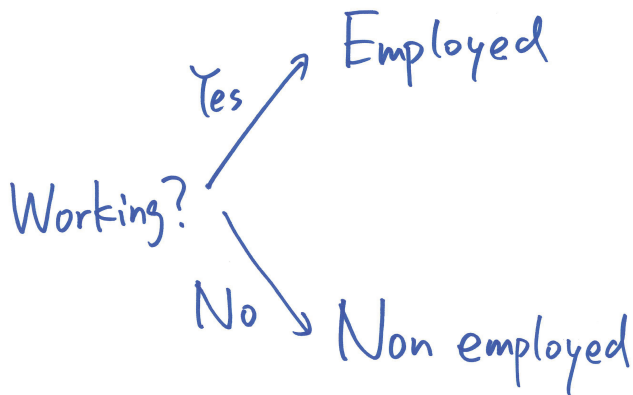
Three labor market states (stocks) we will look at

- ▶ Employment
- ▶ Unemployment
- ▶ Not in the labor force

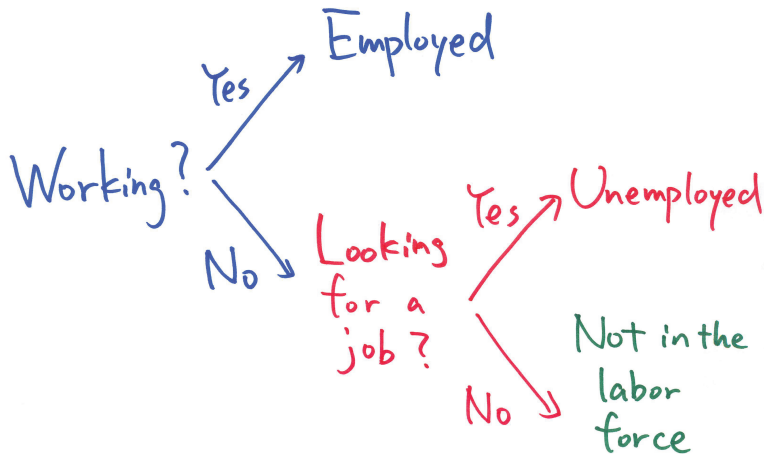
Three labor market states we will look at



Three labor market states we will look at



Three labor market states we will look at



Earlier approaches looked at these stocks.

$$\text{Unemployment rate} = \frac{U}{E + U}$$