**Measuring Mismatch in Labor Markets and its Economic Effect**

**Introduction:** Mismatch in the labor market occurs when a worker does not fully exploit the human capital he has acquired and is employed in a different profession than the one he studied, or in a field in which the years of schooling and vocational training required are less than those which he has acquired. Other examples of mismatch include workers who are not employed at all (unemployed) or are outside the labor force. Mismatch in the labor market has a cost in terms of the individual, which is reflected in wage loss and lack of job satisfaction, and on the level of the economy, which is reflected in output loss and failure to realize the full growth potential of the economy.

**Scientific background:** The literature categorizes the reasons for mismatch into cyclical, frictional and structural. The academic research during the last two decades has focused much attention on frictional mismatch, in which both firms and workers need time to allocate each other and to digest the information about the value of the job. This sort of mismatch is explained through models of search and partial information. Structural mismatch includes situations in which the training and skills of the worker do not fit the skills required by employers. Much of the discussion emphasizes overeducation and lack of geographic mobility. The effect of employment mismatch on wages has been tested with the return on surplus schooling being lower than the return on required schooling

Aims of the study**:** (1) Development of tests for identifying situations of structural mismatch in Israeli labor markets at the individual level, with emphasis on mismatch between profession and field of study; (2) analysis of the demographic characteristics of the workers who are mismatched; (3) examination of the effect of mismatch on wages and quantification of the cost of mismatch to the economy; (4) assessment of the mismatch resulting from continuous changes in supply and demand professions. The research will be carried out using a unique database that matches data from the Labor Force Survey and the Long-Term Households Survey with administrative data on education, field of study, and vocational training.

**Main contributions :** Identification of labor mismatch and development of indexes of mismatch on the level of the profession/field of study. Development of indexes of mismatch based on a profession’s demand- and supply-forecasting model.

Use of a unique database that links data on field of study and vocational training of individuals (in the past) to employment characteristics in the present.

**Database:** The database will be drawn from six sources: (1) Labor Force Survey for 2012-16 [source: CBS]; (2) Long-Term Households Survey, 4 waves – 2012, 2013, 2014-15 [source: CBS]; (3) Income Tax data [source: State Revenue Authority]; (4) Administrative data on field of study, years of study, highest diploma [source: CBS and the Population Registry]; (5) data from the Population Registry [source: CBS]; (6) data on vocational training from the Ministry of the Economy [source: Ministry of the Economy].

Based on these sources, two databases will be constructed: one based on the Manpower Survey and another based on the Long-Term Households Survey. Each database will include all of the fields of the survey and the fields of the income (wage) files, the schooling fields (field of study, profession and institution of higher education) and vocational training fields.