**Measurement of Labor Market Mismatch and its Economic Effects**

**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 workforce. 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 less than full exploitation of growth potential.

**Scientific background:** The literature categorizes the reasons for mismatch into cyclical, frictional and structural. The academic research during the last two decades has primarily emphasized frictional mismatch in the matching of the unemployed to vacancies, using models of search and partial information. Structural mismatch includes situations in which the training and skills of the population are not matched to the skills required by employers and the discussion primarily emphasizes overeducation and lack of geographic mobility. The effect of employment mismatch on wages has been tested and the return on a year of schooling beyond what is required for the job is significantly lower than the return on a year of schooling that is required.

**Goal of the research:** (1) Development of tests for identifying situations of structural mismatch in the Israeli economy at the individual level, with emphasis on profession/field of study; (2) examination of the demographic characteristics of the population that suffers from mismatch; (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 changes in demand and supply for professions, following dynamic changes in demand over time. The test will be carried out using a unique database that links data from the Manpower Survey and the Long-Term Household Survey to data on education and vocational training.

**The innovation of the research:** Identification of mismatch and the development of indexes of mismatch on the level of the profession/field of study. Development of indexes of mismatch based on a forecasting model of demand and supply for professions.

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

**Database:** The database will be drawn from six sources: (1) Manpower Survey for 2012-16 [source: CBS]; (2) Long-Term Household Survey, 4 waves – 2012, 2013, 2014-15 [source: CBS]; (3) Income Tax data [source: State Revenue Authority]; (4) data on schooling (including weighting of degrees from abroad)[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 Household 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.