

# [Labour force participation rate research paper](https://assignbuster.com/labour-force-participation-rate-research-paper/)

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## Introduction

Labour force participation rate is an important concept in economics and it is defined as the number of labours that are participating in the economic activities from the total number of labour available in the economy . The higher the labour participation rate of the economy, there are more chances that the economy would be stable and in a better situation.
As labour participation rate is an important and one of the most discussed topics in economics, this report discusses about the same concept. The report first defines the labour force participation rate and then highlights the importance of labour force participation rate. The report also discusses about the relationship between the labour force participation rate and policies that can help in improving the labour market and economy. Then at the end of the report, conclusion has been presented of the overall topic.
Labour force participation is defined as the ratio of total number of labour that are working or being employed in an economy to the total number of labour available or the total working age population in an economy . The factor is multiplied by 100 in order to represent it in percentage form. For instance, if the total labour force in the economy is 165 million however the total available labour force at the working age is 210 million then by using these values labour force participation would be 68. 75%.

## Importance of Labour Force Participation Rate

Labour force participation is an important concept for economists to understand. Labour force participation rate can also be used to identify the rate of people that are willing to accept the jobs being offered. However it does not only mean or shows the rate of employees that are not willing to accept the job, but this also includes the employees that have not been able to contribute in the overall economic activities either because of not getting the job or not being willing to do the job. Therefore by increasing the participation of these employees and allowing them to contribute either by giving them more incentives would help in improving the overall economic situation of the country and country would be able to get higher revenue from the same available resources.
During recession when the level of unemployment is high and businesses are further downsizing and firing employees, in such a situation, the labour force participation rate would further decrease. The reason for the decrease in participation rate is the higher number of employees would be losing their jobs, thus it would result in decreasing the participation of labour. Therefore, labour force participation rate is an important concept as it also highlights how the economy is performing. Moreover, it can also be used to analyze the trend of the economic activities. For instance, if the labour force participation rate has started to increase then it would reveal that the economy is improving and reaching the boom. However if the case is opposite and the participation rate of labour is decreasing then it will reveal that the economy would soon face recession.
Population growth has also an impact on the Labour force participation rate. When the rate of growth of population is more than the Labour force participation rate, then there are higher chances that the labour participation rate would decrease. In the long term economic growth, labour force participation is very important factor even as important as other factors like labour productivity.
The concept of Labour force participation rate highlights the fact that an increase in the number of labour force in the economy would not result in improving the economic situation but it would result in increasing the unemployment in the country. If the additional labours employed in the economy are not employed, then it will result in increasing the unemployment level in the country but not the Labour force participation rate. Thus increasing the labour force will have no effect to the economy if they are not employed and thus this shows the significance of Labour force participation rate concept.

## Labour Force Participation Rate and Understanding Public Policy and Operations of Labour Market

As discussed Labour force participation rate is as significant concept as labour productivity and increasing the number of labours would not result in improving the economy, because the participation of these labours in the workforce and their contribution in the economy would not be increased. Therefore an economy should have policies that would encourage labours to participate so that the economic condition can be improved.
Participation of labour can be increased by motivating the labour force to accept the job and to make more efforts to find the job. One of the major motivating factors for labour to do the job is the wage rate. By introducing policies that would pay higher wage rate to the labours will result in increasing acceptance and willingness of labours to be employed as they would receive higher returns for the time they spent at the job. Moreover, by offering a higher wage rate, labours might consider more opportunity cost being missed and therefore they would be more willing to do the job. Thus, one of the strategies to induce labour is to have a higher wage rate.
Real wage rate is also important concept that would encourage labour to do the job. Real wage rate excludes the impact of inflation from wages. Real wages has been defined by Michael Parkin as the quantity of goods and services that a labour is able to purchase after working for one hour. As real wage rate nullifies the increase in price level of the economy or inflation, therefore it further encourages labours to work and would encourage the participation of labour . So, if policies are formulated that would offer higher wage rate and higher real wage rate, then it will not only be motivating for employees to continue their struggle to find a job, but it would also be encouraging for the workers that are willing to work but have not made real efforts to find a job in the last month or so and these types of labour are called discouraged workers .
Although it has been found that increasing the wage rate increase the labour participation rate, however increasing the wage rate is not the only solution because even when the wage rate is increased, it will result in higher cost of production and thus profitability of the firms would reduce. With lower profitability of the firms, firms would not be encouraged to hire more labour particularly at a higher cost thus it will either result in increasing the price or increase in the unemployment as firms would hire fewer employees but the supply of labour would increase. Therefore, the gap would still remain between the number of labour force available and the labour force employees. Thus, increasing the wage rate is not the solution and policy makers need to understand the demand and supply of labour as well while formulating policies.

## Conclusion

Labour force participation rate is an important concept and it shows the economic situation of the labour market and economy. If the labour force participation rate is high, then it will show that labours are given sufficient rewards and benefits for the time and efforts they are spending. If the participation rate is low, then policies need to be formulated to encourage them to participate and contribute as higher participation rate would result in improving the economic situation of the country.

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