

An Econometric Study of the Labor Demand in Hong Kong

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Based on one of the feature articles entitled “The Situation of the Four Key Industries in the Hong Kong Economy in 2010” that appeared in the February 2012 issue of the Hong Kong Monthly Digest of Statistics, ‘Trading and Logistics’ is one of the Four Key Industries in the Hong Kong Economy. The value added of this sector is the largest in the Hong Kong Economy and its share in GDP in 2010 was 25.3%. In view of its importance in the labor market by absorbing 22.4% of the total employment in Hong Kong in 2010, the purpose of this study is to investigate factors that affect behind this sector. To give insights into the relationship between the labor demand and factors, our objective is to formulate an effective econometric model to estimate and predict the labor demand in the trading industry in Hong Kong. By utilizing with Cobb-Douglas production function and firm’s minimization principle, we derive the conditional labor demand function which is dependent on the wage rate, unit cost of capital and value added and formulate the econometric model. By examining and checking the historical data, we found that factors (such as Labor Wage) and major events (such as Financial Crisis) affect the labor demand. We will include dummy variables in the econometric model to model major events and improve prediction. This presentation will describe the econometric model used in this study. Our findings will advance our understanding of the labor demand in Hong Kong’s trading industry.

Key Words: Cobb-Douglas production function, Conditional labor demand function, Cost minimization problem and Double-log regression model