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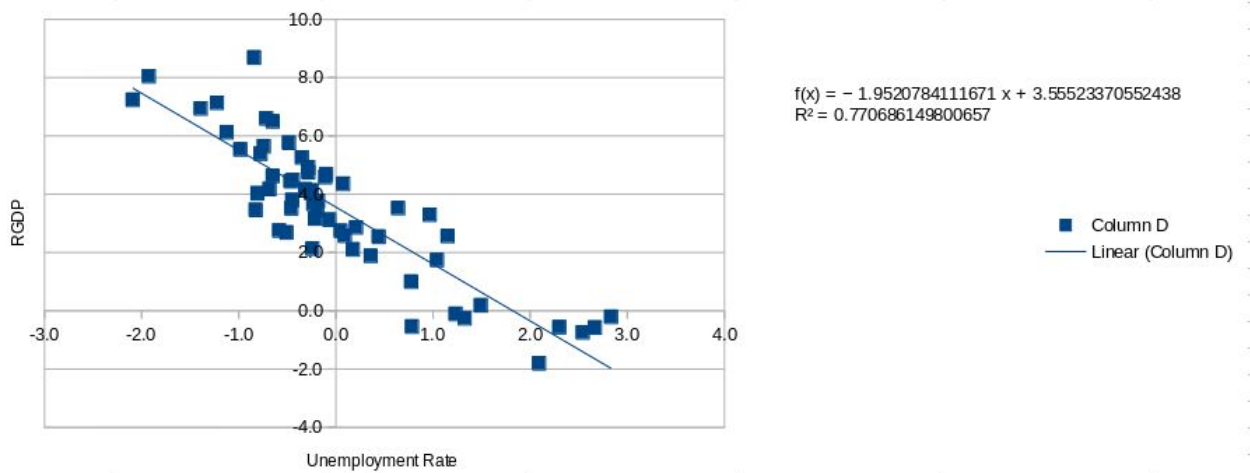
Professor Herdelin

ECON-102-C

Okun's Law

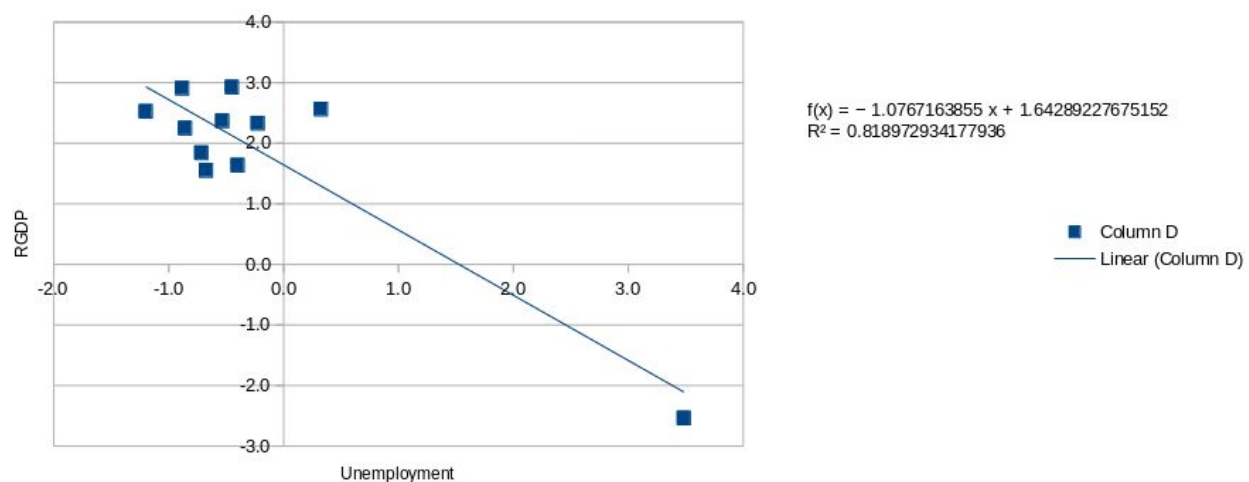
In the long run data set (1949-2005) the relation that Okun's Law describes holds. The equation of $3-2\Delta U$ is very close to the regression. The regression came out with the equation of $3.5 - 1.95\Delta U$.

1949-2005



In the short run data set (2009-Current) the relation that Okun's Law describes does not hold. The regression came out with the equation of $1.64 - 1.07\Delta U$ which is far from the predicted $3 - 2\Delta U$. The recession could have caused a decrease in the expected growth in potential output which could explain why the intercept is below 3.

2009-Current



Okun's Law describes the relationship between unemployment rate and gross domestic product, specifically real gross domestic product in our case. These are two very important variables in macroeconomics that are well-researched and available. This allows us to easily plot the relationship and as the figure above shows, it is supported by empirical data for long-run situations. It can therefore be used as a tool for economists to forecast unemployment rates given a certain production level. In addition, certain policies can be implemented by lawmakers in an attempt to reach a certain level of unemployment.