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Unemployment (NRU) = Loss of 2.5% of GDP

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**Example:** Suppose that total GDP was 14,000B  
with an unemployment rate 1% higher than the NRU

## 2. Lost Production: Okun's Law

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**\$350B lost**

Costs of Unemployment

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$$1\% \text{ Unemployment above NRU} = \text{GDP} \times 0.025$$

$$1\% \text{ Unemployment above NRU} = 14,000\text{B} \times 0.025$$

\$350B lost

# Okun's Law: an example