

1% increase in Unemployment over the Natural Rate of
Unemployment (NRU) = Loss of 2.5% of GDP

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1% Unemployment above NRRU = GDP x 0.025

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

2. Lost Production: Okun's Law

NRU = Frictional + structural

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\$350B lost

Costs of Unemployment

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Okun's Law: an example