

Okun's Law: an example

Assume the $NRU = 5\%$ $GDP = 12T$

Actual = 90%

Unemployment above NRU = 9 - 5 = 4%

Okun's Law: For each 1% extra unemployment
we lose 2.5% of GDP:

%Lost GDP = 4(2.5) = 10%

$$\text{Lost GDP} = 1.2T(0.10) = \$1.2T$$

\$1.2T of production that can never be recovered

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Plotting Unemployment and Inflation