1% increase in Unemployment over the Natural Rate of Unemployment = 2.5% of GDP lost

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1% Unemployment = GDP x 0.025

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

Costs of Unemployment

2. Lost Production: Okun's Law

NRU= Frictional + structural

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Okun’s Law: an example