Okun's Law: an example

Assume the NRU = 5%	DP= 12Trillion
------------------------	----------------

Actual Unemployment Rate = 9%

% 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%

Lost GDP = 12T(0.10) = \$1.2T

\$1.2T worth of goods and services that can never be recovered

Okun's Law: an example

Assume the NRU = 5% GDP= 12Trillion

Actual Unemployment Rate = 9%

% 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%

Lost GDP = 12T(0.10) = \$1.2T

\$1.2T worth of goods and services that can never be recovered

Plotting Unemployment and Inflation