

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



1% Unemployment \equiv GDP \times 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

1% Unemployment = 14,000B x 0.025

\$350B lost

Costs of Unemployment

2. Lost Production: Okun's Law

$$\text{NRU} = \text{Frictional} + \text{structural}$$

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

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

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

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

\$350B lost

Okun's Law: an example