

Okun's Law: an example

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

Actual = 90%

Unemployment above NRU $= 9 - 5 = 4\%$

For each 1% extra unemployment we lose

2.5% of GDP:

%Lost GDP = 4(2.5) = 10%

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

12T of production that cannot be recovered

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