

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

Production that cannot be recovered

Okun's Law: an example

Assume the $\text{NRU} = 5\%$ $\text{GDP} = 12\text{T}$

Actual $U_r = 9\%$

Unemployment **above** $\text{NRU} = 9 - 5 = 4\%$

For each 1% extra unemployment we lose
2.5% of GDP:

$\% \text{ Lost GDP} = 4(2.5) = 10\%$

Lost $\text{GDP} = 12\text{T} (0.10) = \1.2T

Production that can not be recovered

