

For each 1% increase in Unemployment above the Natural Rate of Unemployment (NRU) we lose production equivalent to 2.5% of GDP

1% Unemployment above $NRU = GDP \times 0.025$

Example: Suppose that total GDP was 14,000B
and that unemployment was 1% higher than the **NRU**

2. Lost Production due to unemployment: Okun's Law

NRU = Frictional + structural

1% Unemployment above $NRU = 14,000B \times 0.025$

= \$350B lost due to
unemployment

Costs of Unemployment

This means that
**Actual
Unemployment was:**

$$\text{NRU} + 1 =$$

$$3 + 1 = 4$$

This means that with
zero unemployment,
**GDP would have
been:** $14,000 + 350 =$
 $14,350\text{B}$

Costs of Unemployment

2. Lost Production due to unemployment: Okun's Law

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

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Example: Suppose that total GDP was 14,000B and that unemployment was 1% higher than the NRU

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

$$1\% \text{ Unemployment above NRU} = 14,000\text{B} \times 0.025 = \$350\text{B lost due to unemployment}$$

This means that with zero unemployment, **GDP would have been:** $14,000 + 350 = 14,350\text{B}$

Okun's Law: an example