For each1% increase in Unemployment over the Natural Rate of Unemployment (NRU) we lose production equivalent to 2.5% of GDP

1% Unemployment above NRU = GDP x 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

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=$350B lost due to unemployment

Costs of Unemployment

This means that
Actual Unemployment was:
NRU + 1 =
5 +1 = **6**

This means that with zero unemployment, **GDP would have been**: 14,000+350 = 14,350B

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Okun’s Law: an example