Okun's Law: an example

Assume the $NRU = 3\%$	GDP= 12Trillion
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Actual Unemployment Rate = 10%

% Unemployment above NRU = 10 - 3 = 7%

Okun's Law: For each 1% extra unemployment we lose 2.5% of GDP

% Lost GDP = 7(2.5) = 17.5%

Lost GDP = 12T(0.175) = \$2.1T

\$2.1T worth of goods and services that can never be recovered

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Plotting Unemployment and Inflation