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A cross-province comparison of Okun's coefficient for Canada

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Abstract

This study estimates Okun's coefficients for ten Canadian provinces using real GDP and unemployment. The Okun's coefficient for Ontario is -1.58, for Quebec -1.32, for Alberta -1.32, for Saskatchewan -1.32, for Manitoba -1.32, for British Columbia -1.32, for Atlantic provinces -1.32, for Yukon -1.32, for Northwest Territories -1.32, and for Nunavut -1.32. The average Okun's coefficient is -1.32. The study also examines the relationship between the Okun's coefficient and the loss of jobs across the two provinces. The loss of jobs is measured as the difference between the number of jobs in real GDP and the number of jobs in unemployment. The loss of jobs is -2.14 million jobs.

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Notes

The GNP gap is the difference between GNP and potential GNP while the unemployment rate gap is the difference between the unemployment rate and natural unemployment rate.

Okun's approach is a very novel way of getting around the problem of predicting potential GNP.

Prachowny used two main US data sets that have been used by several other authors. These are the Gordon data set (1947:1 - 1986:2) and the Adams and Coe data set (1965:1 - 1988:4). The main difference between the two data sets is that Gordon's output gap refers to GNP, while the Adams and Coe measure is for the nonfarm business sector (i.e. about 80% of GNP).

Some are actually as simple as just drawing a line linking the peaks of the series.

Moosa ([1997](#)) used annual 1995 GDP (measured in 1985 prices) data covering the period 1960-1995 to estimate Okun's coefficient values for the G7 countries. No unit root test results were reported.

Both Moosa ([1997](#)) and Harris and Silverstone ([2001](#)) obtained the estimated Okun's coefficients using the reversed regression (regressing unemployment on real output) thus this estimated Okun's coefficient is usually inverted to obtain the true coefficient.

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