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

Kwami Adanu

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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 (2004) used the Okun's law approach to estimate the natural rate of unemployment for the period 1965:1 – 1988:4. No unit root test was conducted.

Both Moosa and Okun used Okun's law to estimate the natural rate of unemployment. Both used the same coefficient (0.3) for the output gap. Thus this is a very simple approach.

More information on the Okun's law approach can be found at [gover](#)

This is the same approach used by Okun (1962) and Prescott (1986).

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