

Asymmetry in Okun's Law

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There are good reasons to believe that the assumption of symmetry in Okun's law does not hold, suggesting that a single Okun's coefficient may not be adequate as a summary measure for the long-run relationship between cyclical output and cyclical unemployment. In this paper, we define Okun's coefficients based on a dynamic model which allows for asymmetry in the relationship between cyclical output and cyclical unemployment. Using data from the United States for the post-war period, our results show that (a) the short-run effects of positive cyclical output on cyclical unemployment are different from those of negative ones, and (b) the data are consistent with the cyclical unemployment being more sensitive to negative than to positive cyclical output. We argue that our approach leads to more informative results than the one that imposes the symmetry assumption that the short-run relationship between cyclical unemployment and cyclical output is the same whether the latter is positive or negative.

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