

# News Release

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## **HOW USEFUL IS OKUN'S LAW?**

Evidence of a recent slowdown in economic growth coinciding with falling unemployment has run counter to a decades-old principle known as “Okun’s Law.” Named after the economist Arthur Okun, the law states that slower economic growth should coincide with rising unemployment. The experience of 2006 shows, however, that this is not always the case.

In the article “How Useful is Okun’s Law?” Edward S. Knotek II, an economist at the Federal Reserve Bank of Kansas City, examines the relationship first documented by Okun in the 1960s and discusses whether it still applies in light of recent data. The article appears in the fourth quarter edition of the Bank’s *Economic Review*.

Beginning in the first quarter of 2006 and continuing for the next year, slower GDP growth in the United States coincided with a lower unemployment rate. The phenomenon puzzled economists and policymakers, who instead expected an increase in unemployment, partly based on Okun’s Law.

Knotek writes that evidence suggests the relationship Okun documented has actually varied over time and over the business cycle, meaning Okun’s “law” is more of a “rule of thumb.” But Knotek concludes Okun’s framework is still a useful forecasting tool, as long as instability is properly taken into account.

The article is available on the Bank’s website at [www.KansasCityFed.org](http://www.KansasCityFed.org).

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