

# Relationship between output gap and the amount of cyclical unemployment in the ec...

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Cyclical unemployment rate is a function that refers to the fundamental difference between the total rate of unemployment and the natural rate of unemployment.

This type of unemployment rate usually occurs when the country is experiencing undergoing significant recession in its economic variables. To place more emphasis on the subject, the natural unemployment rate would refer to the unemployment rate, which prevails whenever the cyclical unemployment rate marks at zero leading to a situation in which the economy significantly lacks an output gap attributed to recession (Albert & Monica, 2008). In economic terms the output gap represents the fundamental difference existing in a scenario where the potential Gross Domestic Product potential is calculated as a fraction of its difference from the actual Gross Domestic Product. This is fundamentally expressed in the Okun's law, which states and correlates all the input and output elements in due consideration of the relative unemployment rates going by the respective Gross Domestic Product indices (Albert & Monica, 2008). Okun's law essentially presents a critical regression analysis on the that aims at representing the respective percentage decrease experienced in regard to the potential Gross Domestic Product and how this value correlates with the already established mechanisms through which actual employment rates occur going by the projected percentage levels.

It is therefore more of an economic estimate of how changes in the economy performance variables lead to the fundamental development of unexpected unemployment rates that may at times supersede the natural rates (Albert & Monica, 2008). There are several other factors that may come into play when <https://assignbuster.com/relationship-between-output-gap-and-the-amount-of-cyclical-unemployment-in-the-economy/>

taking due consideration of the developing arguments, for instance, consideration may be given to different age structures and the respective labour force. Some of these factors usually complicate the process of establishing the accompanying relationships.