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## **Revisiting Okun's Law for Europe**

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### *Abstract*

*Okun's law is considered a crucial empirical relationship in macroeconomics. This study revisits Okun's relation for a number of European countries over the 1965-2014 period. The main motivation behind the study is the lack of unanimity in the literature in modelling the direction of the systematic opposite movements of the unemployment rate and output. While a strand of the literature treats changes in unemployment rates as the outcome of aggregate demand fluctuations, another strand relates unemployment to output through a production-function approach, where fluctuations in labour -particularly unemployment- capital, and technology are modelled to explain fluctuations in output. Accordingly, this study revisits the Okun's law by empirically questioning the model specification of the unemployment-output relationship. The relevant statistical evidence is obtained through exploiting recent panel data estimation techniques of instrumental variable estimations and vector autoregression analyses.*

*Keywords: Okun's law, unemployment, panel data.*

*JEL classification: E24, J64, C33.*