An Analysis On the Validity of Okun’s Law: Case of Turkey and BRICS

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Abstract

The relationship between economic growth and employment has always preoccupied economists and politicians. To study the relationship between, on the one hand, the evolution of economic growth and, secondly, the unemployment, economists are accustomed to refer to the "Okun's law". The main objective of this paper is to estimate the Okun’s coefficient, and to check the validity of Okun’s law in some emerging countries (Brazil, Russia, India, China, South Africa and Turkey) to see whether it is valid or not, using the time series annual data during the period 1990-2014. Engle granger co-integration test and Fully Modified OLS are employed. Empirical evidences show that Okun’s law interpretation may not be applicable in some emerging countries. Tests of cointegration revealed long-run association between unemployment and economic growth except the case of Brazil. Our findings suggest that Okun’s law is not valid for Turkey, South Africa and Brazil.

Key Words: Economic Growth, Unemployment, Okun’s Law.