Is the Okun's Law Valid in Tunisia?

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Abstract : The central focus of this paper was to check whether the Okun's law in Tunisia is valid or not. For this purpose, we have used quarterly time series data during the period 1990Q1-2014Q1. Firstly, we applied the error correction model instead of the difference version of Okun's Law, the Engle-Granger and Johansen test are employed to find out long run association between unemployment, production, and how error correction mechanism (ECM) is used for short run dynamic. Secondly, we used the gap version of Okun's law where the estimation is done from three band pass filters which are mathematical tools used in macro-economic and especially in business cycles theory. The finding of the study indicates that the inverse relationship between unemployment and output is verified in the short and long term, and the Okun's law holds for the Tunisian economy, but with an Okun's coefficient lower than required. Therefore, our empirical results have important implications for structural and cyclical policymakers in Tunisia to promote economic growth in a context of lower unemployment growth.