

Financial Crises and Unemployment: Beyond the Okun's Law

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Sintesi della Relazione

We study the impact of financial crises on labour market and, in particular, the additional effect (with respect to that passing through GDP growth declines) of these crises on the unemployment rate. The approach is based on a theoretical framework which, starting from the “Okun’s Law”, explicitly accounts for the effect four types of financial crisis: Non-systemic bank, Systemic bank, Currency crisis, and Sovereign debt. The basic assumption of the proposed framework is that the additional effect of these crises (when it exists) is due to an increase of the “systemic uncertainty”. In order to find evidence of this effect, we formulate an operational model which belongs to the family of linear Mixed-Effects Models and implement an Expectation-Maximization algorithm for its estimation. The model is fitted to data coming from a large panel of countries and referred to the period 1980-2005. In order to better interpret the estimation results, simulations under different scenarios are also presented. These results show evidence of additional effects (with respect to that passing through the GDP variation) of the certain types of financial crisis on the unemployment rate.

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