

ABSTRACT

This research thesis explores the nature of relationship between output-unemployment gap of Pakistan's economy. It examines the assumption of targeted rate of unemployment as assumed by Okun in 1952. Using the traditional Okun's gap version, this study proposes some sort of relationship between output and unemployment gaps. The relationship between real GDP and unemployment gaps may not be statistically significant in the presence of heroic assumption of 4 % targeted rate of unemployment, but if this assumption is reviewed, better results can be found.