The Impact of Unemployment on Economic Growth of United States of America

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Abstract

In this research, the relationship between economic growth and unemployment in the United States of America is examined, as we know the U.S.A is one of the top economies in the world, thus, the relationship between unemployment and economic growth using the recent data from 1990 to 2019 is investigated. This relationship is examined by using the Robert Solow model and variables Gross Domestic Product Per Capita (GDPC) as a dependent variable and unemployment rate, gross capital formation, population (total labor force) as independent variables. The Autoregressive Distributed Lag (ARDL) model, Johansen's Cointegration, and ARDL Bound test models have been used to examine the short- and long-run relationships among variables. The result of analyses shows that unemployment has a negative impact in the short and long run on the GDP per capita; In the short run, with a 1% increase in total unemployment the GDP per capita income will be decreased by 0.8% in short-run and with 1% increase in the total unemployment rate, the GDP per capita will be decreased by 3% in long run. However, the relationship between GDP per capita and the total labor force is positive for instance, with a 1-unit increase in the total labor force the GDP per capita will increase by 3-units. It is to mention that these results are statistically significant and robust although the relationship among gross capital formation was not statistically significant.

Keywords: Keywords: Unemployment, Economic Development, Autoregressive Distributed Lag (ARDL) model.

JEL Codes: Jel Code: E24, F63, N01