

---

[Working Paper 1039](#)

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

Flórez, Luz Adriana

Karen L. Pulido- Mahecha

Ramos-Veloza, Mario Andrés

AUTHORS AND/OR EDITORS

[Flórez-Flórez, Luz Adriana](#)

[Pulido-Mahecha, Karen L.](#)

[Ramos-Veloza, Mario Andrés](#)

---

---

This paper identifies Okun's law in Colombia between 1984 and 2016 using a Vector Error Correction Model (VECM) as there is evidence of a long-term relationship between the unemployment rate and the GDP. Results suggest that after a one percent increase in GDP, the unemployment rate is reduced by 0.45 percentage points in the long run (after sixteen quarters). In addition we inspect for nonlinearities using a threshold cointegration model (TVECM). Results suggest the existence of two regimes a low and a high one. The high regime starts at the late nineties and is associated with a more flexible labor market. Under this regime, a 1% increase in GDP, reduces the UR 0.6 percentage points after eighteen quarters. By contrast, under the low regime the response is 0.2 percentage points after eight quarters.