

Regional Growth and Unemployment: Evidence from Turkey

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Abstract:

Although the relationship between unemployment and growth -Okun law- is often estimated for Turkey with nationwide data, it is more meaningful to employ disaggregated data for several reasons. First, the unemployment and growth performances of regions differ significantly across regions. Second, it is of great interest to find out how unemployment reacts to growth in different regions. Third, the drivers of the difference between Okun coefficients can be found out by employing other regional indicators. This paper aims to investigate Okun law across Turkish regions. To that end, we employ unemployment and regional income data at the NUTS2 level for the 2004-2018 period and estimate two-way fixed-effect models. Although mostly there is a negative relationship between growth and unemployment, there are significant differences between the magnitudes of Okun coefficients. Moreover, the coefficient is insignificant for several regions. We also find out that the differences can be explained by private investments. These results imply the importance of region-specific policies for alleviating unemployment.

Keywords: Okun's law; unemployment; panel data

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