The Phillips curve

Philips Curve describes the relationship between **inflation and unemployment in an economy**.

HS202

Introduction

- Inflation is defined by increase in the average price level of goods and services over time.
- When there is inflation, value of money falls.
- A low inflation rate indicates that average price of goods would not rise as high.
- Unemployment exist when someone is actively seeking for job but unable to find any despite their willingness to accept the going market wage rate.

What this curve indicates ?

- A. W. H. Phillips's study of wage inflation and unemployment in the United Kingdom from 1861 to 1957 is a milestone in the development of macroeconomics.
- Philips observed that if unemployment decreases, inflation will increase, and vice versa.

Figure 1 -shows a typical Phillips curve fitted to data for the United States from 1961 to 1969.

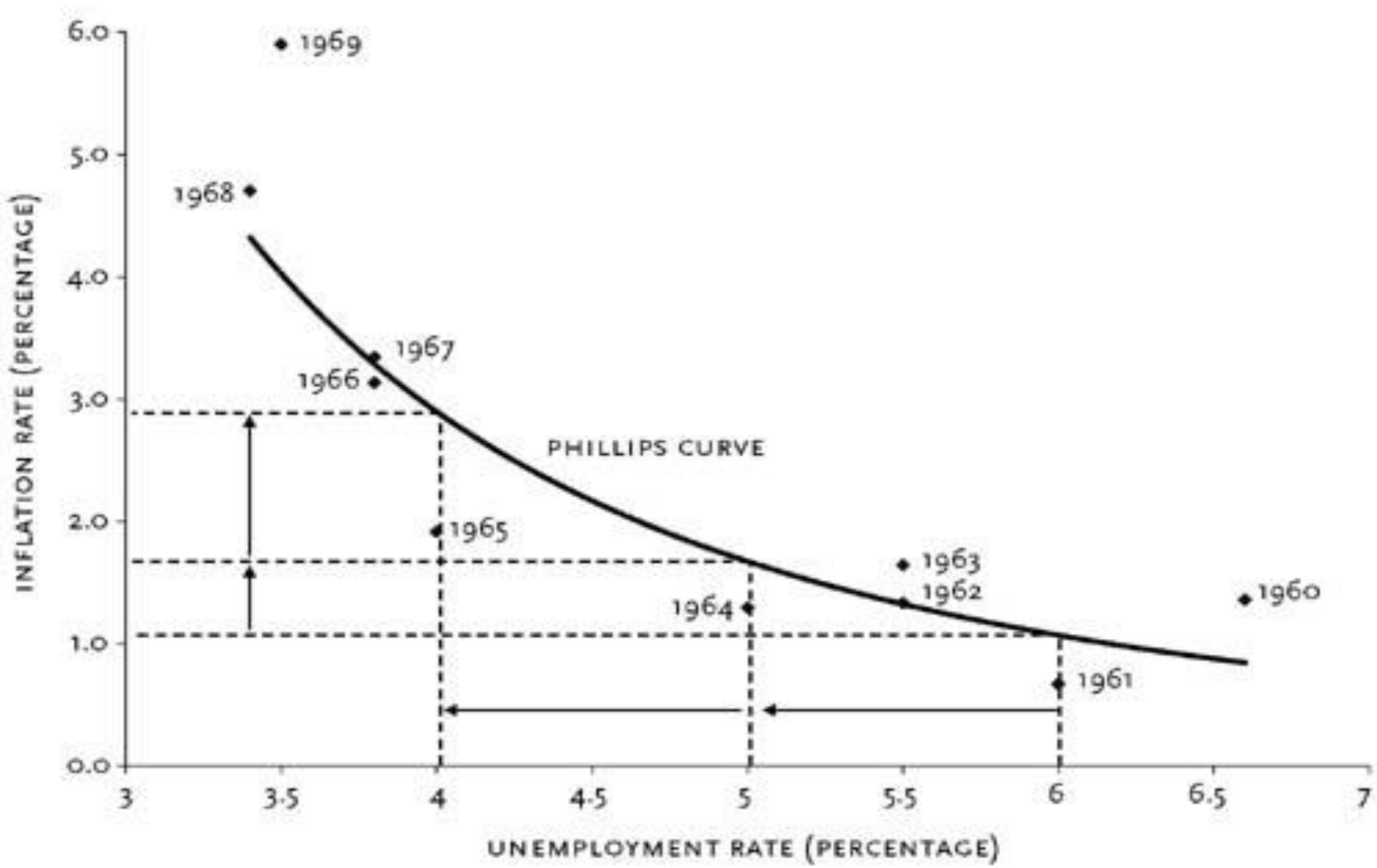

Figure 1

- Fig-1 also indicates that the cost, in terms of higher inflation, would be a little more than half a percentage point.
- But if the government initially faced lower rates of unemployment, the costs would be considerably higher: a reduction in unemployment from 5 to 4 percent would imply more than twice as big an increase in the rate of inflation—about one and a quarter percentage points.