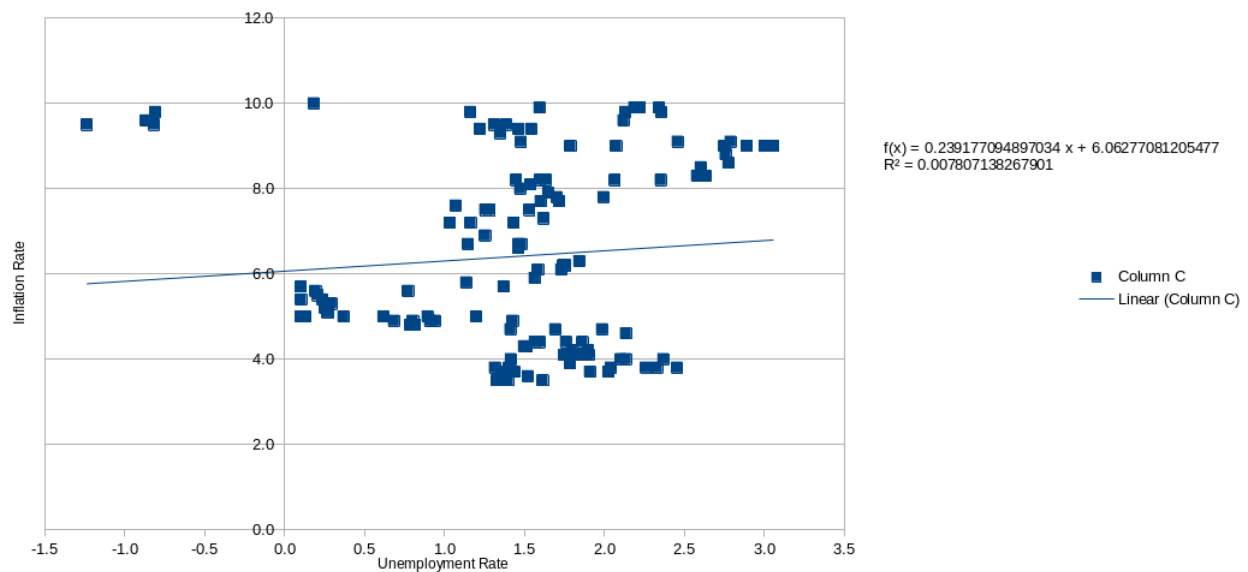


Dalton, Matteo, Trey, Walker

Professor Herdelin

ECON-102-C

### Phillips Curve



3.6 Real Unemployment	4.43820 Natural Rate
19,219.767 Real GDP	19,197.500 Potential Real GDP

There would be an inflationary environment in the current United States economy. This is because the actual output is greater than the potential output. The Phillips Curve was developed to show that inflation and unemployment have a stable and inverse relationship, meaning as one goes up the other goes down. Observing the graph above we see that the current Phillips curve from our data has a positive slope that is very small. The theoretical model states it should have a negative slope. The

main cause of this mismatch is the existence of stagflations. Stagflations occur when there is a high inflation and high unemployment. Stagflations can occur due to various reasons. A known cause of stagflation is supply shocks. A supply shock can cause stagflation when there is a combination of rising prices and falling output. This has occurred in the past when the price of oil increased rapidly. A stagflation could account for the mismatch of our slope being positive and the theoretical being negative. Another possible could be people's expectations about inflation. If people realize inflation is occurring then the tradeoff between inflation and unemployment disappears. Both of these cause a shift in the supply curve and as a result a shift in the Phillips curve. A third possible contributor to the deviation between the theoretical Phillips curve and the observed data is that real unemployment is actually lower than the natural rate. This is usually the opposite with the natural rate being lower than the unemployment rate and could alter the slope of the Phillips curve.