↳ Phillips Curve:

→ Inflation $\propto \frac{1}{\text{unemployment}}$ → stable relationship → only in the short-run.

→ By A.W. Phillips.

→ ↑ inflation ⇒ ↓ unemployment

↓ inflation ⇒ ↑ "

↳ Stagflation:

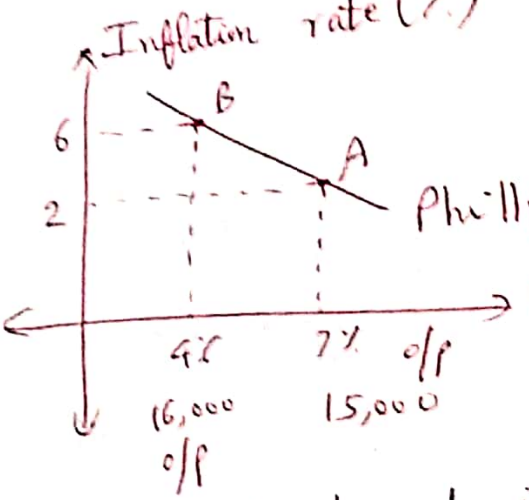
→ Condition of slow economic growth, rapid inflation & high unemployment.

→ inflation & decline in GDP.

→ ↑ in prices & stagnation in economic growth

→ 1970s in U.S.

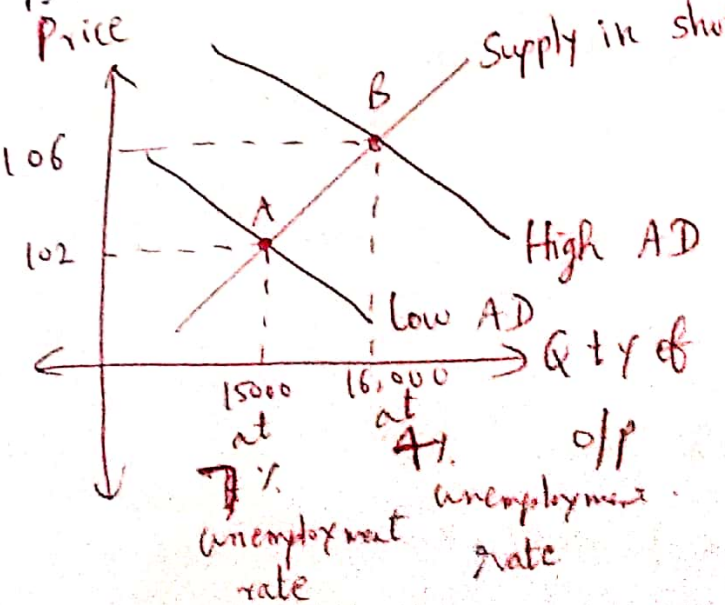
↳



A → Aggregate demand is low → o/p qty ↓ ⇒ ↑ unemployment, ↓ inflation.

B → " " is high → o/p qty ↑ ⇒ ↓ unemployment, ↑ inflation.

Price level ↑ @ B than @ A due to inflation.



Higher AD moves to an eq. price where price-level & o/p are high @ B.

106 > 102

16,000 > 15000.

↳ ↑ in money supply
↑ in govt. spending
↓ in taxation
⇒ ↑ inflation & ↓ unemployment. (expands AD curve)

↳ ↓ in money supply
↓ in Govt. spending
↑ in taxation
⇒ ↓ inflation & ↑ unemployment (contracts AD curve)

↳ Phillips curve → only short-run.

↳ Graph-2 ⇒ unemployment (o/p) & inflation (price) both ↑ @ point B (stag-flation).

core