

March 10:

- tradeoff between SP output and inflation = Phillips curve

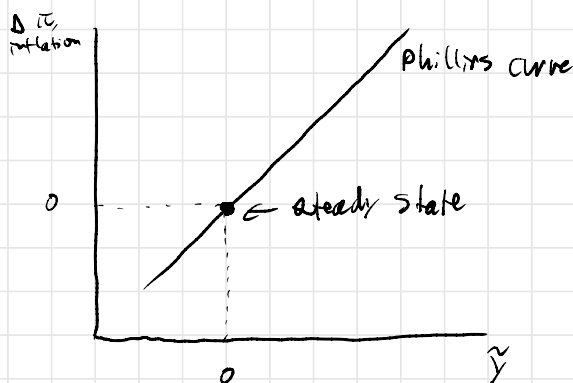
Okun's law: relationship between output and unemployment

$$U_t - \bar{U} = -\frac{1}{2} \tilde{y}_t$$

natural rate of unemployment

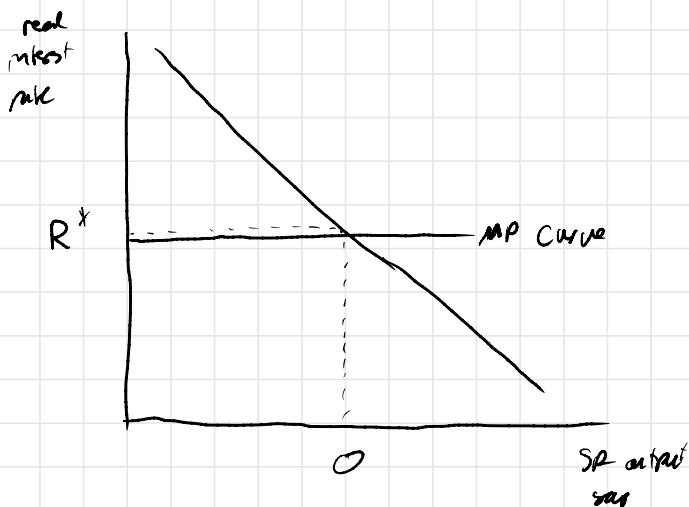
output gap

$\bar{U} \approx 4-5\%$, mostly frictional unemployment



IS Curve

- relationship between interest rate and level of output in the economy
- R : interest rate, cost of borrowing



Countercyclical monetary policy:

- $\tilde{y} > 0 \rightarrow \Delta \pi \uparrow \rightarrow R \uparrow$
- $\tilde{y} < 0 \rightarrow \Delta \pi \downarrow \rightarrow R \downarrow$