CHAPTER 14

Aggregate Supply and the Short-Run Tradeoff Between Inflation and Unemployment

Presentation Slides

Macroeconomics

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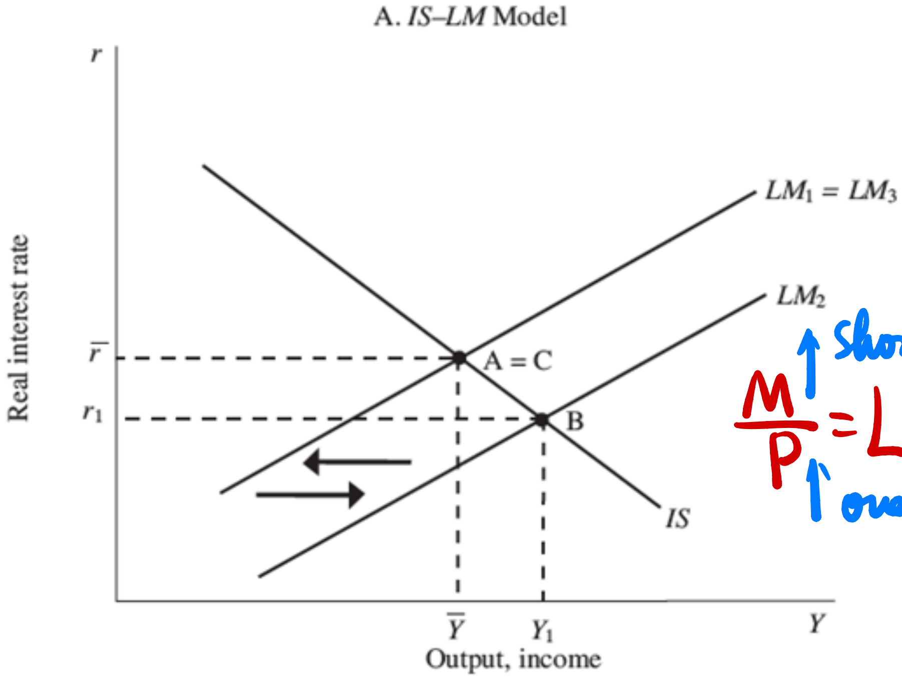
Exercise

5. Suppose that the economy is initially at a long-run equilibrium. Then the Fed increases the money supply.

- **a.** Assuming any resulting inflation to be unexpected, describe any changes in GDP, unemployment, and inflation that are caused by the monetary expansion. Explain your conclusions using three diagrams: one for the *IS–LM* model, one for the *AD–AS* model, and one for the Phillips curve.

$$\pi = E\pi - \beta(u - u^n) + \nu$$

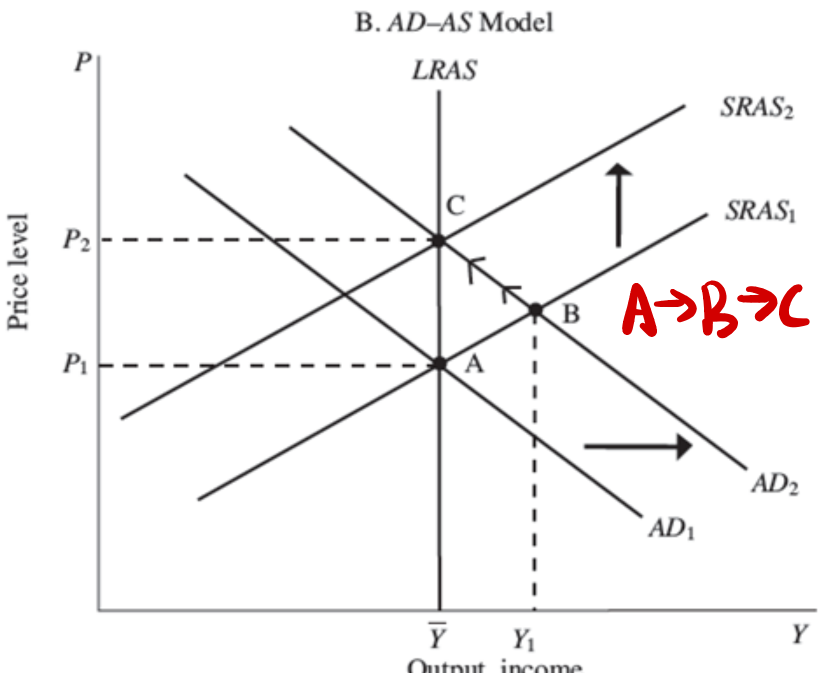
short-run tradeoff



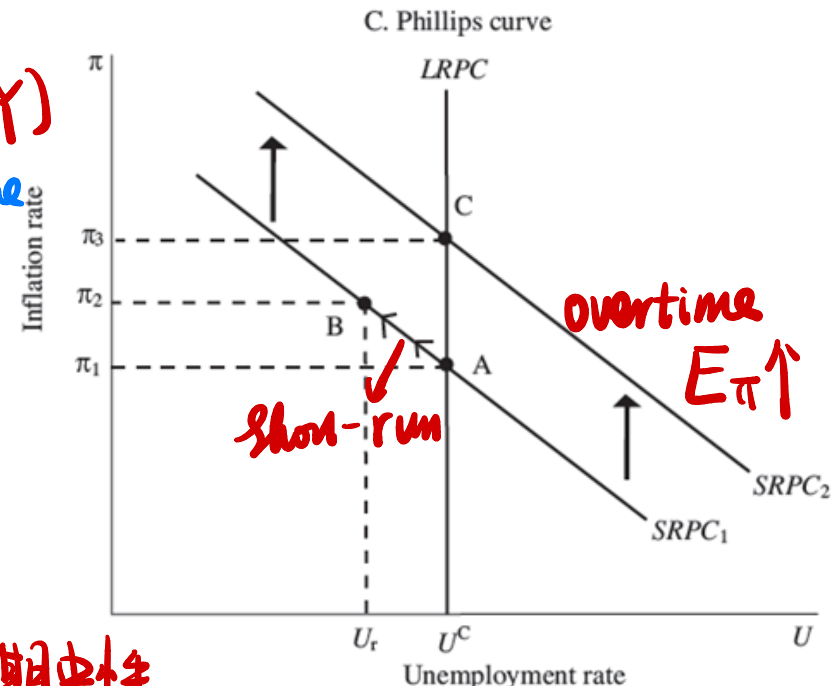
$$\frac{M}{P} = L(r, Y)$$

↑ short

↑ overtime



A→B→C 货币长期中性

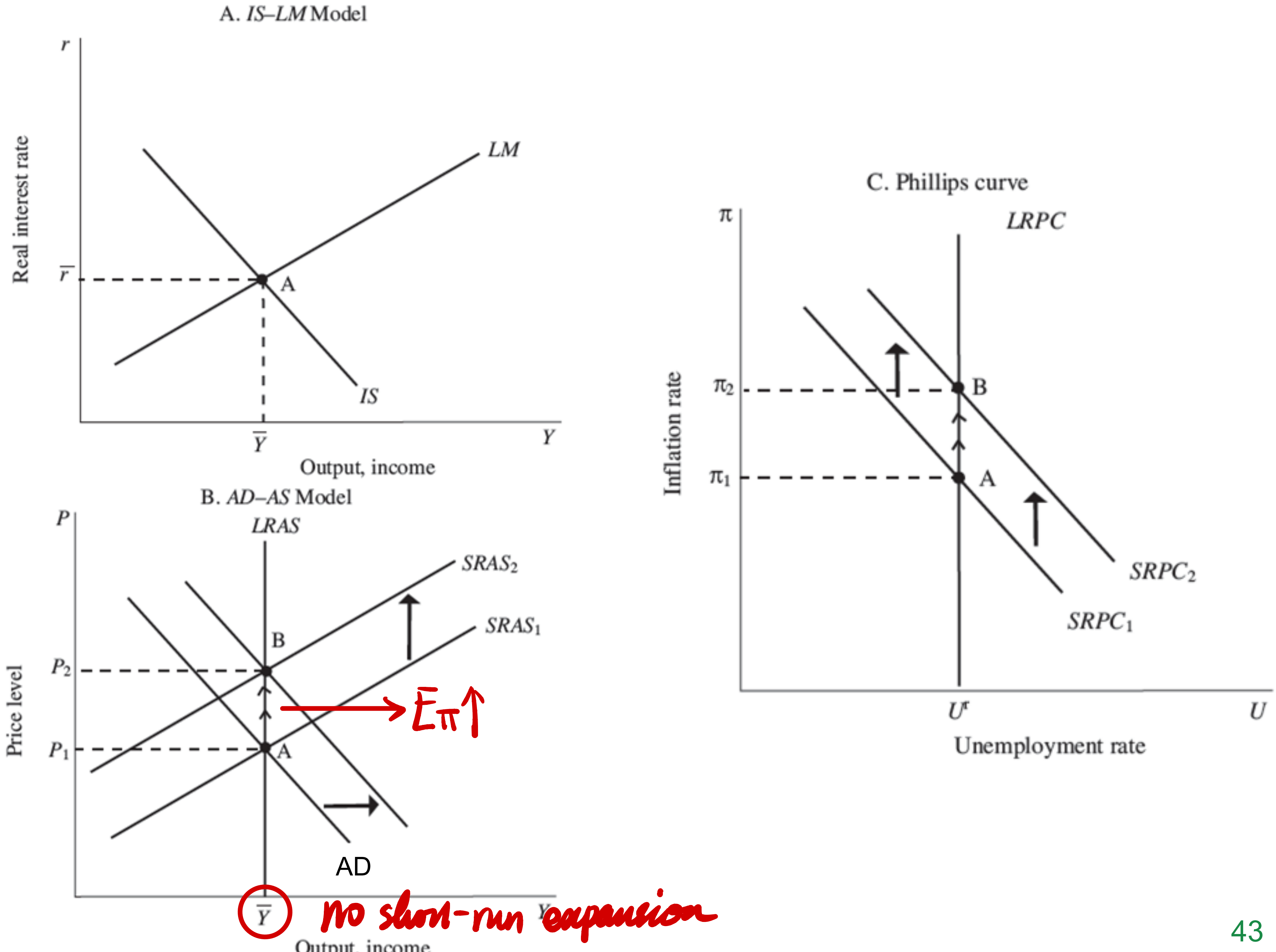


overtime

$E\pi$↑

short-run

- **b.** Assuming instead that any resulting inflation is expected, describe any changes in GDP, unemployment, and inflation that are caused by the monetary expansion. Once again, explain your conclusions using three diagrams: one for the *IS–LM* model, one for the *AD–AS* model, and one for the Phillips curve.


A. IS–LM Model
Real interest rate
r
LM
$\bar{r}$
A
IS
$\bar{Y}$
Y
Output, income
B. AD–AS Model
P
LRAS
$SRAS_2$
$SRAS_1$
B
P_2
P_1
A
Price level
AD
$\bar{Y}$
Y
Output, income
$E\pi\uparrow$
no short-run expansion
C. Phillips curve
π
LRPC
Inflation rate
π_2
B
π_1
A
$SRPC_2$
$SRPC_1$
U^n
U
Unemployment rate