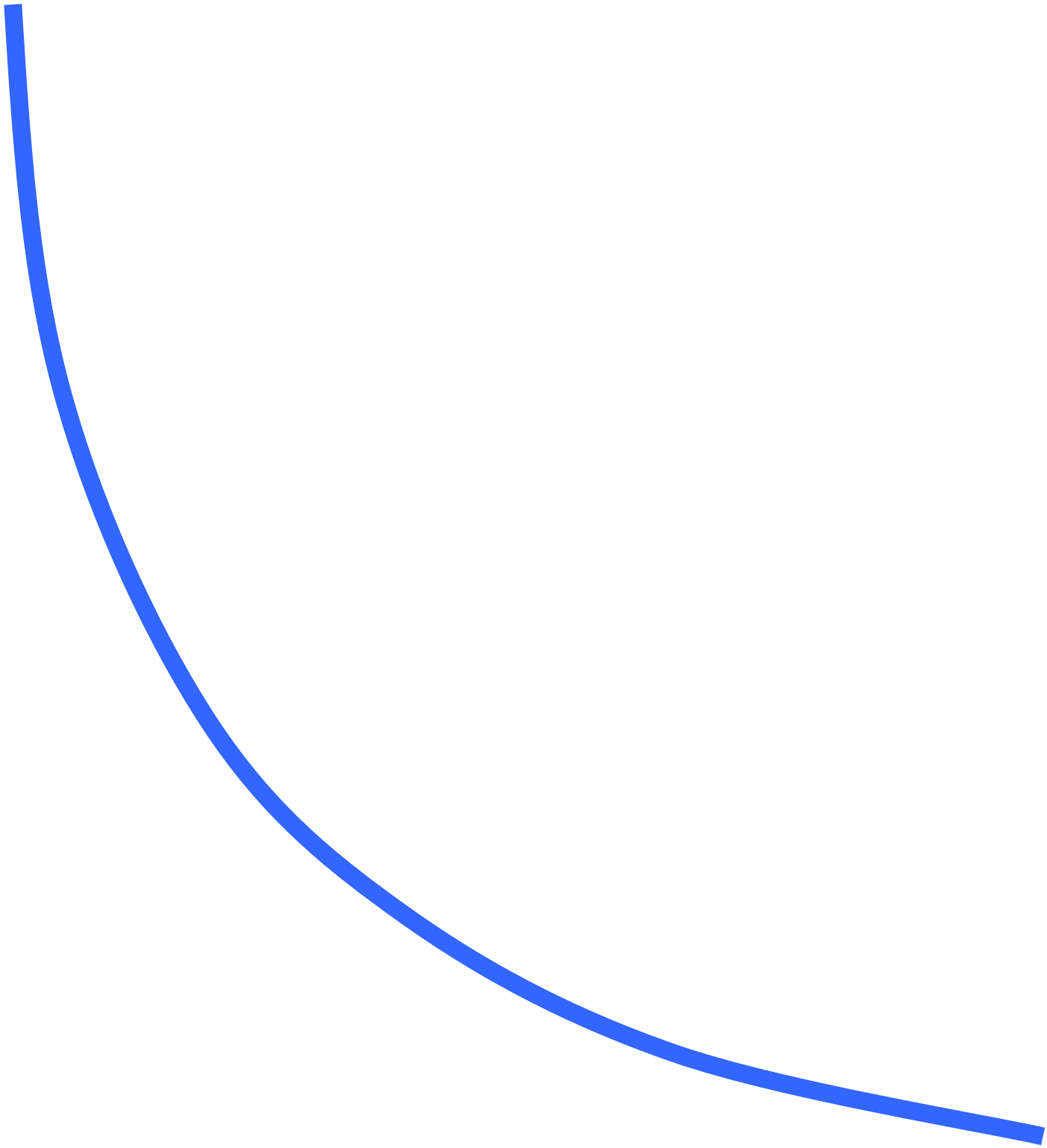
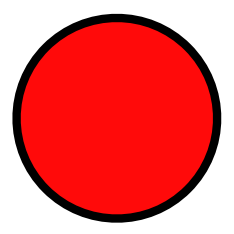
Phillips Curve: tells us that there is a **trade off** between inflation and unemployment

Inflation

Unemployment





Years of **high** Inflation

Years of **low** Inflation

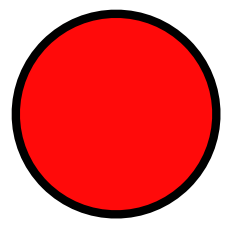
Are years of **low** Unemployment

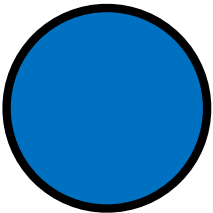
Are years of **high** Unemployment

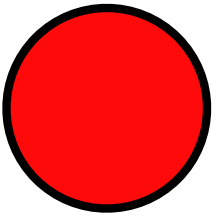
To **reduce** inflation by 1%, unemployment must **increase** 2% above the natural rate

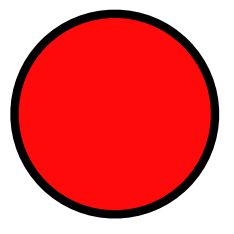
1%

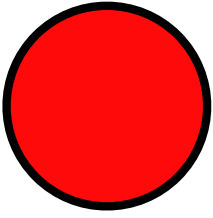
2%

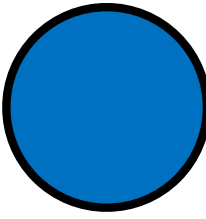


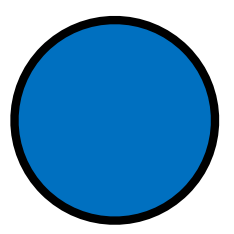


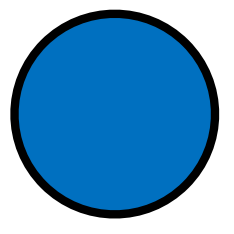


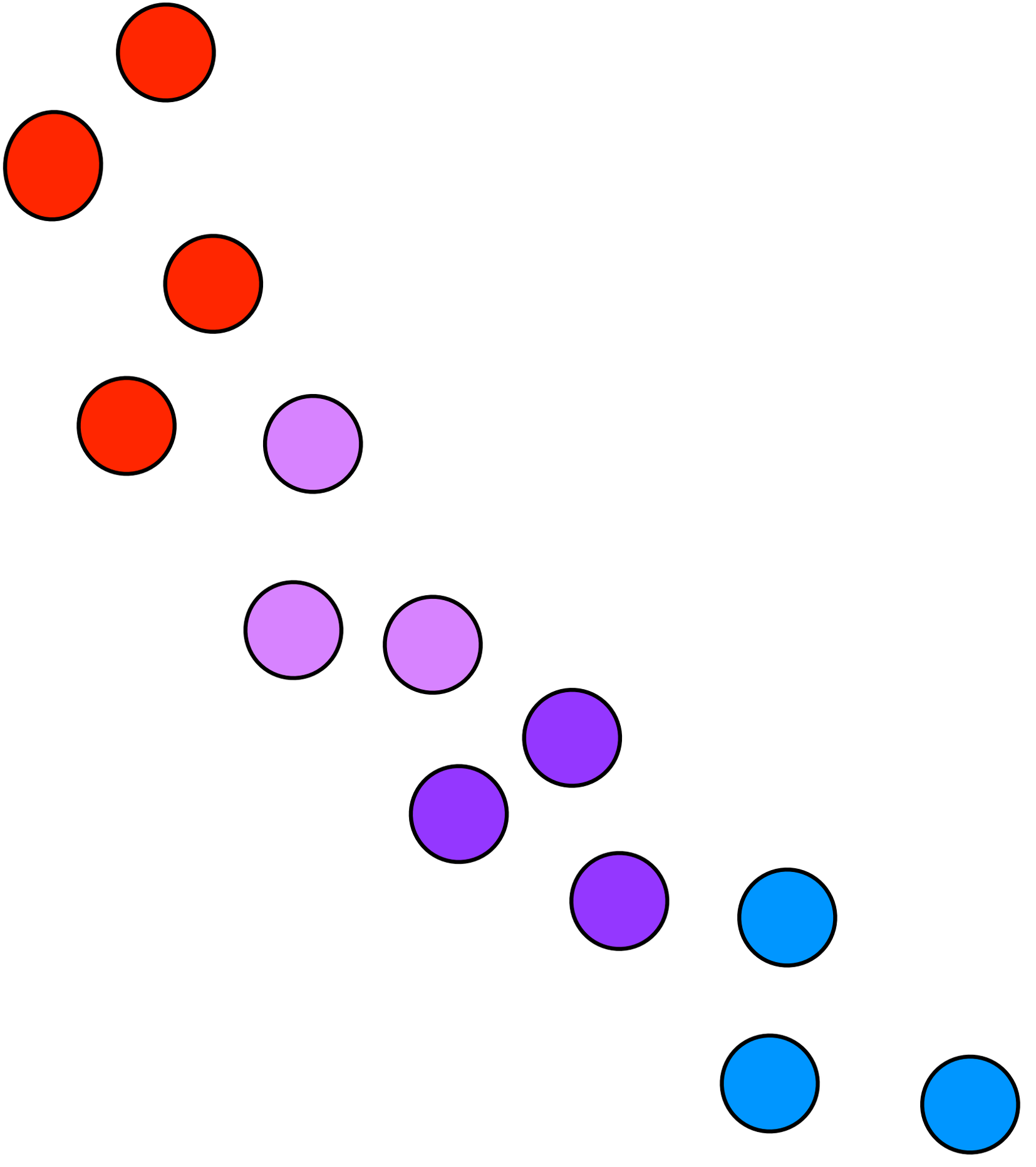








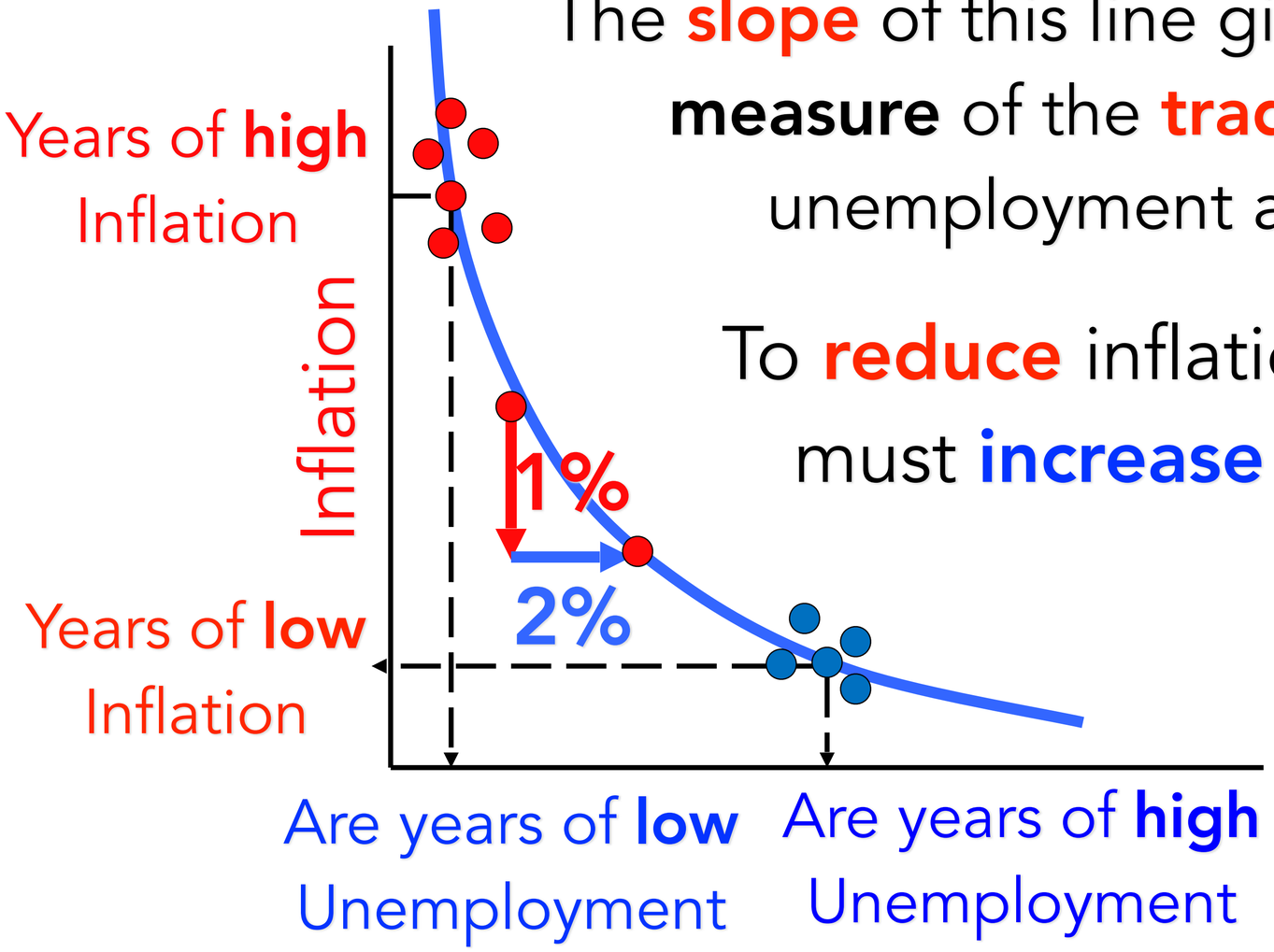




The **slope** of this line gives us a **numerical measure** of the **trade off** between unemployment and inflation

To **reduce** unemployment by **2%**, inflation must **increase 1%**

Phillips Curve: tells us that there is a **trade off** between inflation and unemployment



The **slope** of this line gives us a **numerical measure** of the **trade off** between unemployment and inflation

To **reduce** inflation by 1%, unemployment must **increase** 2% above the natural rate

To **reduce** unemployment by **2%**, inflation must **increase 1%**

Costs of Unemployment