



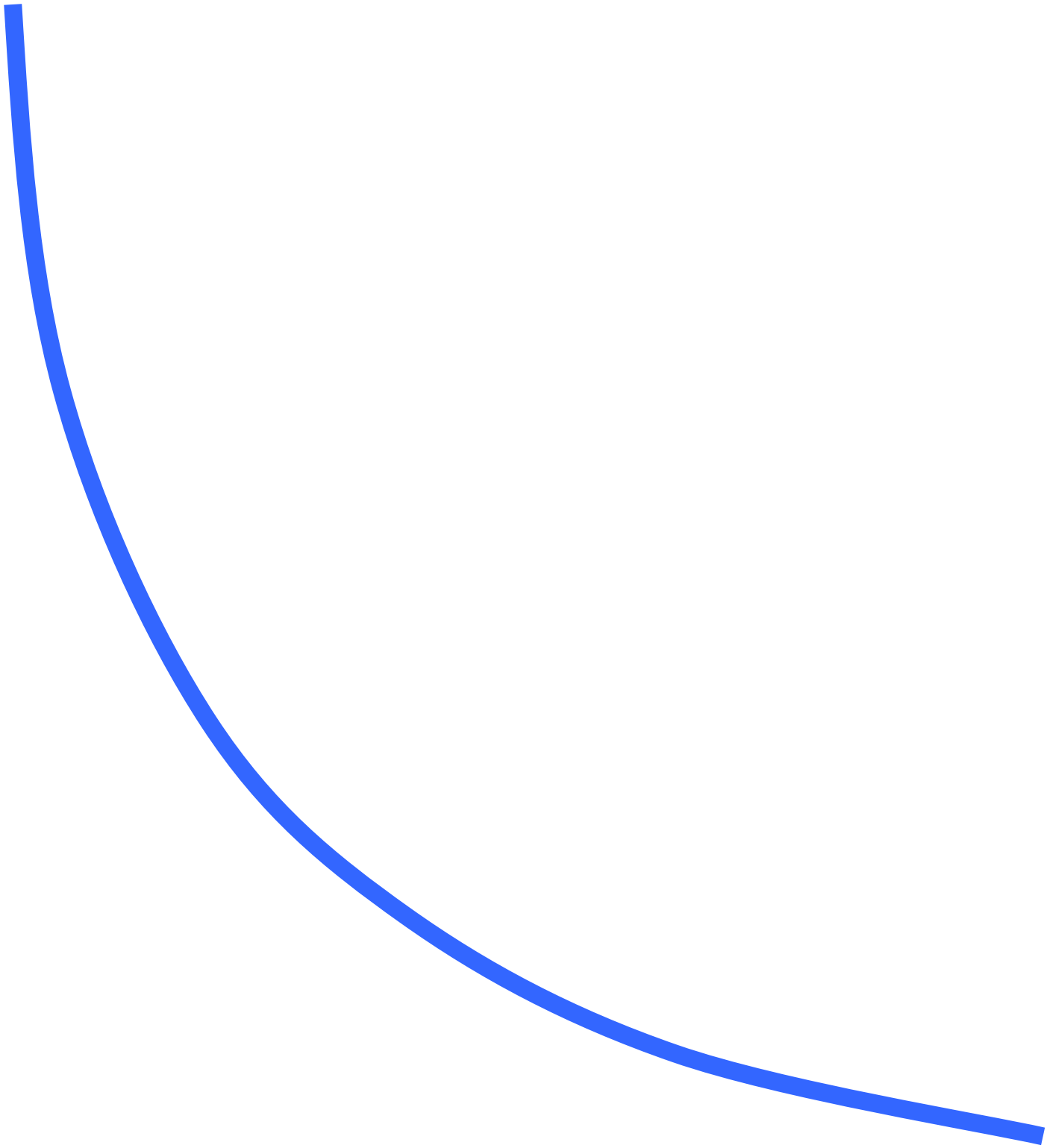
Phillips Curve: tells us that there is a **trade off** between
inflation and unemployment





unofficial

Unemployment







Years of high
Inflation

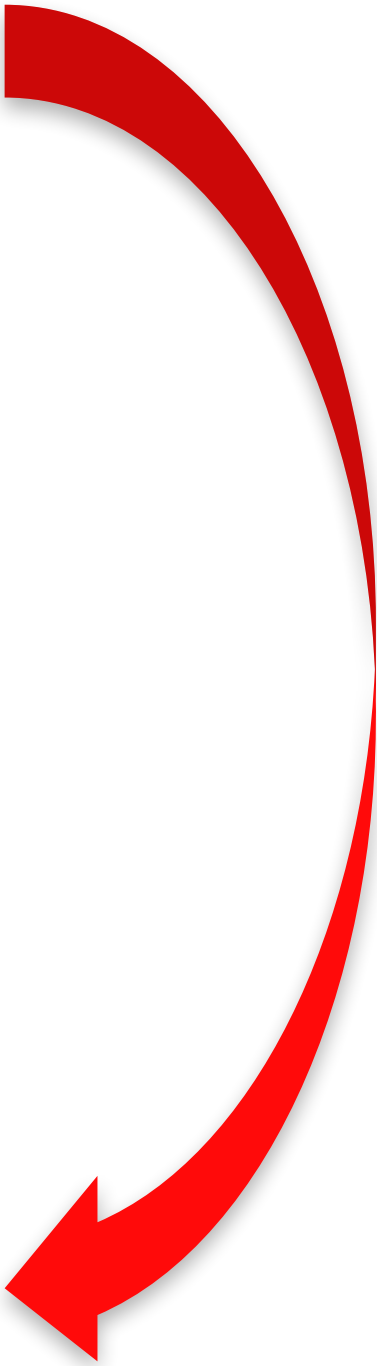




Years of low
Inflation

Are years of **low**
Unemployment

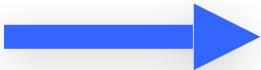
Are years of high
Unemployment





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





2%







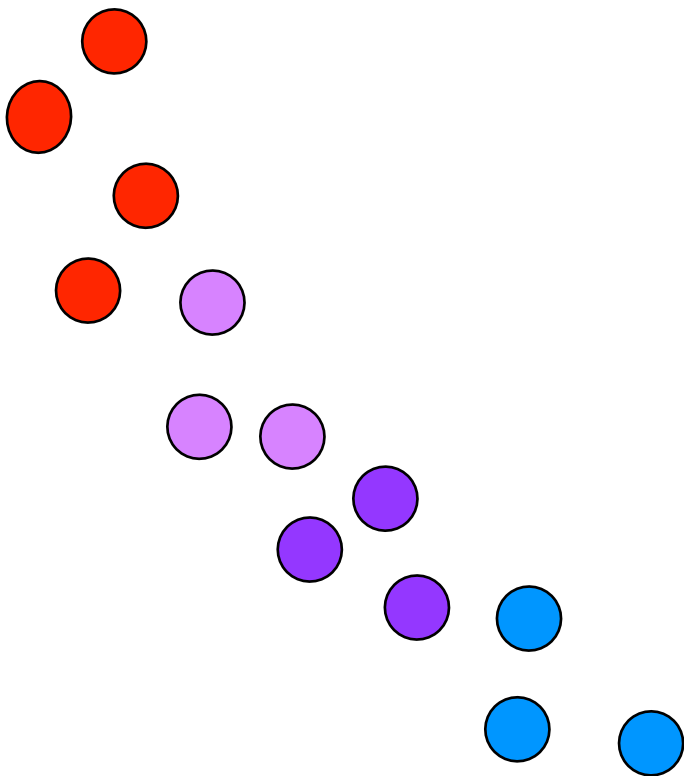








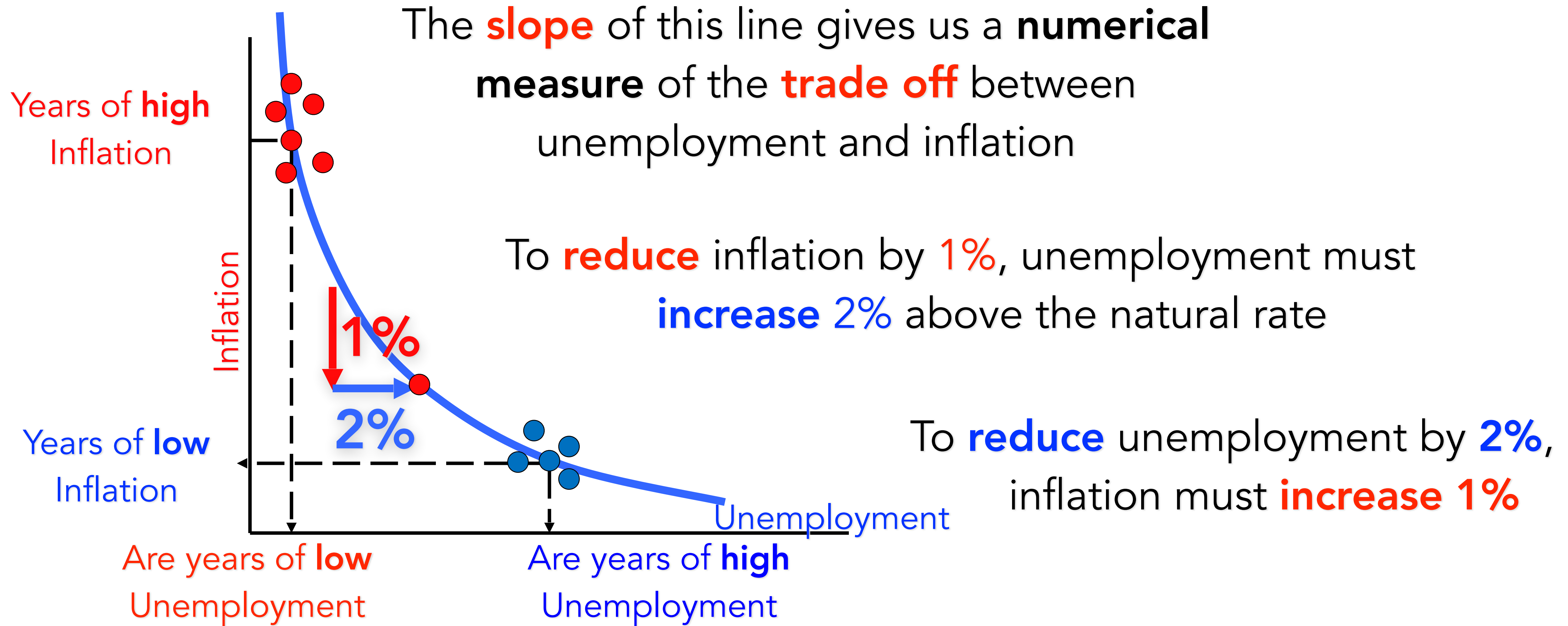




The **slope** of this line gives us a **numerical measure** of the **trade off** between unemployment and inflation

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

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



Costs of Unemployment