Exercise walk-through

The Phillips Curve ▪ 5.2

eXercise

You must be able to

- describe the **short-run Phillips curve 短期菲利普斯曲线** as an inflation-unemployment trade-off
- explain why the **long-run Phillips curve** is vertical at the natural rate
- relate movements and shifts of the Phillips curve to the AD–AS model

Method — Short-run Phillips curve

A downward-sloping **trade-off**: lower unemployment comes with higher inflation, and vice versa.

Method — Long-run Phillips curve

Vertical at the **natural rate** of unemployment — in the long run there is **no** trade-off.

Method — Link to AD–AS

A rightward shift of **AD** moves the economy **up** the short-run Phillips curve (lower unemployment, higher inflation); this matches a move up the SRAS curve.

Practice 2.1 ▪ 1 mark

State what the short-run Phillips curve shows.

Solution 2.1

Worked steps

the short-run trade-off between inflation and unemployment **B1**.

Practice 2.2 ▪ 1 mark

State the shape of the long-run Phillips curve and where it sits.

Solution 2.2

Method: Long-run Phillips curve

Worked steps

vertical, at the natural rate of unemployment **B1**.

Practice 2.3 ▪ 2 marks

State the short-run effect of an increase in AD on unemployment and inflation.

Solution 2.3

Worked steps

unemployment falls and inflation rises **B1** **B1**.

Exam-style 3.1 ▪ 1 mark

The short-run Phillips curve shows a trade-off between inflation and

A growth

B unemployment

C the exchange rate

D saving

Solution 3.1

Method: Short-run Phillips curve

A growth

B unemployment ✓

C the exchange rate

D saving

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

The long-run Phillips curve is vertical at the

A zero rate

B natural rate of unemployment

C business-cycle peak

D full inflation rate

Solution 3.2

Method: Long-run Phillips curve

A zero rate

B natural rate of unemployment ✓

C business-cycle peak

D full inflation rate

Worked steps

B.

Exam-style 3.3 ▪ 1 mark

The central bank runs expansionary policy, raising AD.
(a) State the short-run effect on unemployment.
(b) State the short-run effect on inflation.
(c) State the long-run effect on unemployment.

Solution 3.3

Worked steps

(a) it falls **B1**. (b) it rises **B1**. (c) it returns to the natural rate **B1**.