5 The Phillips curve and inflation – Part 1 — Answers

Answers

Work through these after you have tried the questions yourself.

2.1 lower unemployment tends to come with higher inflation (and higher unemployment with lower inflation).
2.2 it is vertical at the natural rate of unemployment; in the long run policy changes inflation but not unemployment.
2.3 about $10\% - 4\% = 6\%$.
2.4 it can raise both at the same time (stagflation).
2.5 the economy returns to its natural rate of unemployment in the long run, so demand policy ends up changing only the price level, not employment.