5 The Phillips curve and inflation – Part 1

Name: ______________ Class: __________ Date: ____________

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)		
Phillips curve	菲利普斯曲线			
natural rate of unemployment	自然失业率			

Recall

You have seen that unemployment and inflation are the two big economic worries:

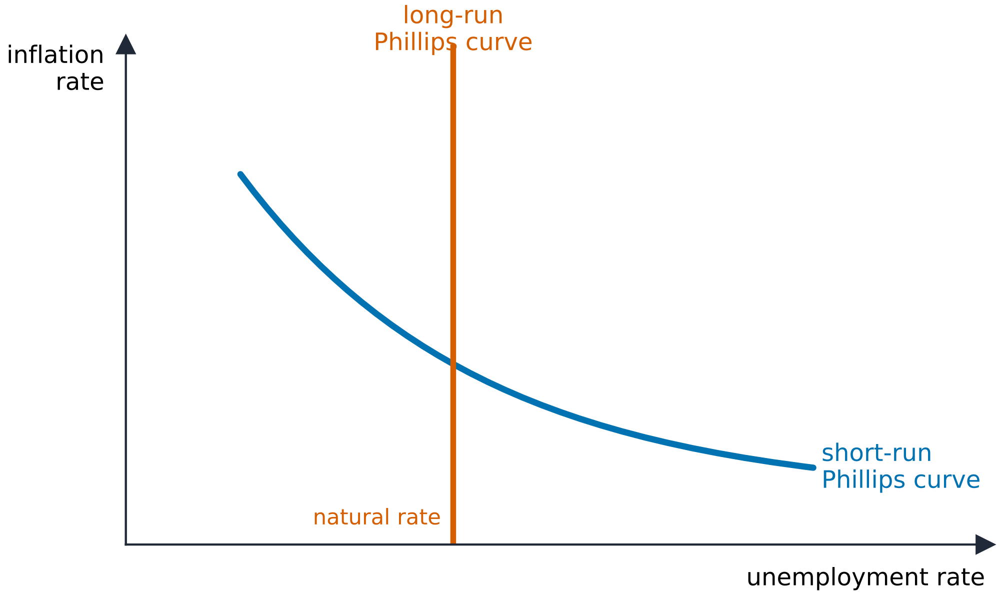
- In a boom, jobs are plentiful but prices tend to rise.
- In a slump, prices are stable but jobs are scarce.
- Printing too much money makes prices rise.

This sheet lines up the link between them. Each idea has a worked example.

New ideas

1 The Phillips curve

The **Phillips curve** 菲利普斯曲线 shows a short-run trade-off: lower unemployment usually comes with higher inflation, and vice versa.



So policy that lowers unemployment tends to raise inflation in the short run.

■ 2 The long run

In the long run there is **no** trade-off: the economy returns to its **natural rate of unemployment** 自然失业率, and policy changes only inflation, not unemployment. The long-run Phillips curve is vertical.

■ 3 Money and inflation

In the long run, **inflation is a monetary phenomenon**: if the money supply grows faster than output, the extra money simply raises prices.

Worked example. If the money supply grows 8% while output grows 3%, inflation is about $8\% - 3\% = 5\%$.

■ 4 Supply shocks

A **supply shock** (like a jump in oil prices) can raise inflation **and** unemployment at once – the hard case called stagflation.

Watch out: the inflation–unemployment trade-off is only a **short-run** effect. In the long run, trying to hold unemployment below its natural rate just produces higher and higher inflation.

Practice

Try these in order. The methods are all above.

2.1 State the short-run trade-off shown by the Phillips curve. [2]

2.2 State what the long-run Phillips curve looks like and what it means. [2]

2.3 The money supply grows 10% while output grows 4%. Estimate the inflation rate. [2]

2.4 State what a supply shock does to inflation and unemployment together. [2]

2.5 Explain why there is no long-run trade-off between inflation and unemployment. [2]