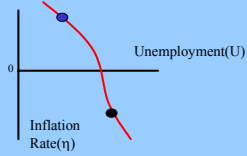
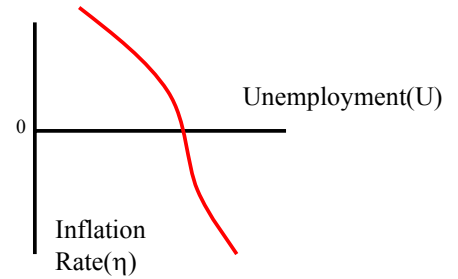


The Phillips Curve

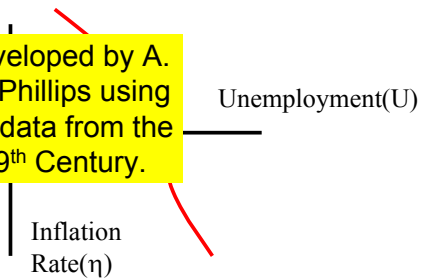


The Curve



The Curve

Developed by A. W. Phillips using UK data from the 19th Century.



Okun's Law

$$\frac{GDP_{Potential} - GDP_{Actual}}{GDP_{Actual}} \approx \left(\frac{1}{2}\right)(U - U_n)$$

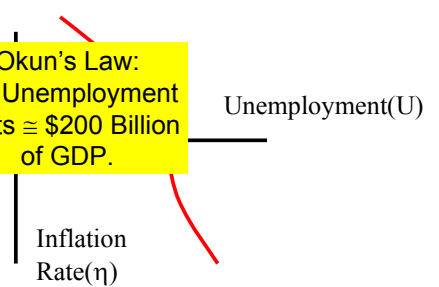
Okun's Law

$$\frac{GDP_{Potential} - GDP_{Actual}}{GDP_{Actual}} \approx \left(\frac{1}{2}\right)(U - U_n)$$

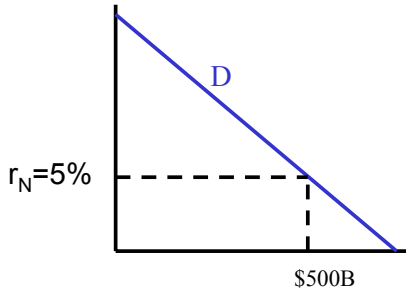
$$\frac{Y_P - Y_A}{Y_A} \approx \left(\frac{1}{2}\right)(U - U_n)$$

The Curve

Okun's Law:
1% Unemployment costs \cong \$200 Billion of GDP.



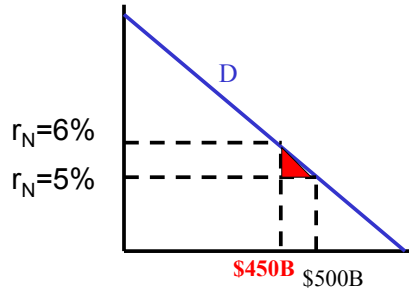
What does it cost us??



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The Phillips Curve

For the US?

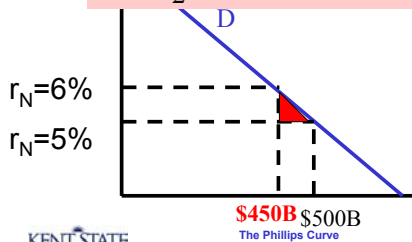


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The Phillips Curve

For the US?

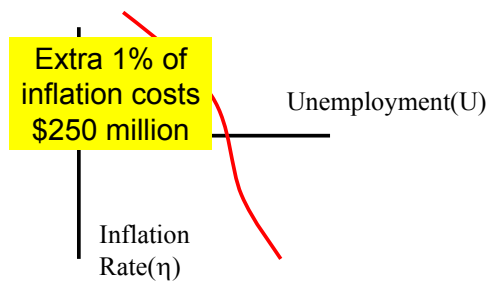
$$\text{Cost} = \frac{1}{2} (\$50\text{billion})(0.01) = \$250\text{million}$$



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The Phillips Curve

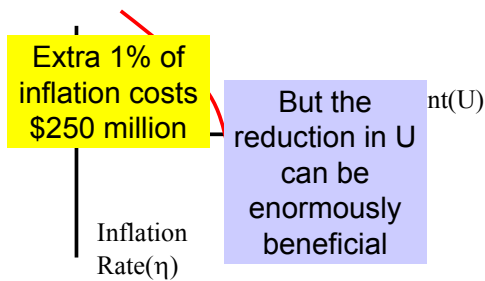
Costs and Benefits



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The Phillips Curve

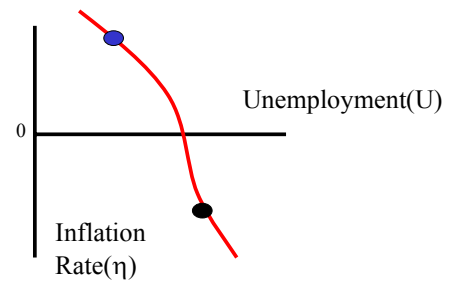
Costs and Benefits



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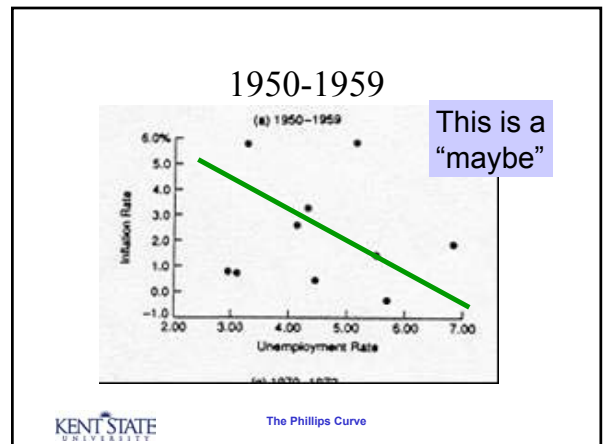
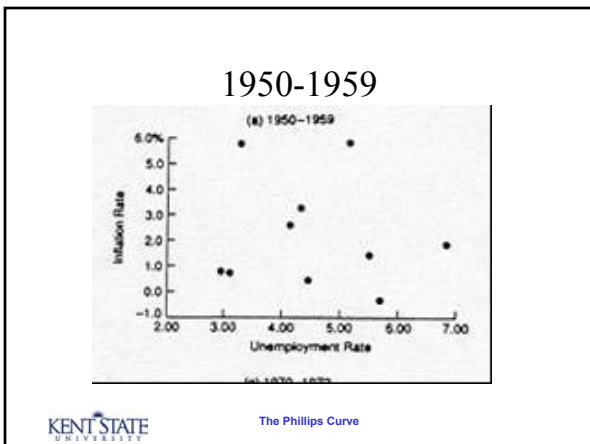
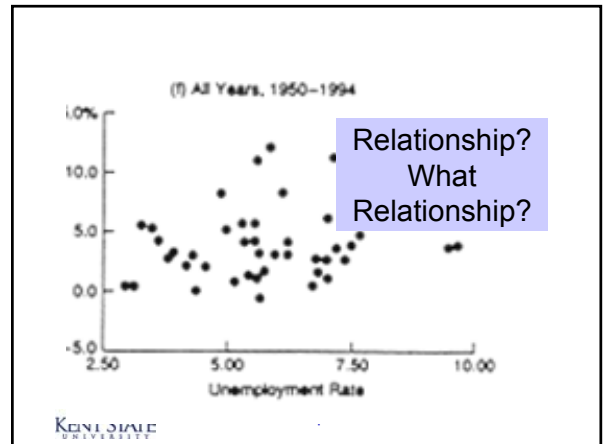
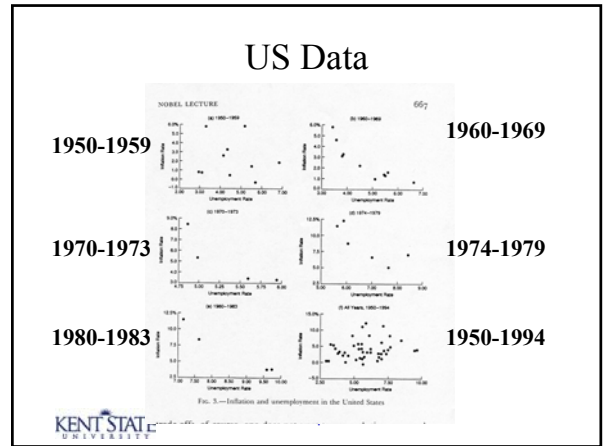
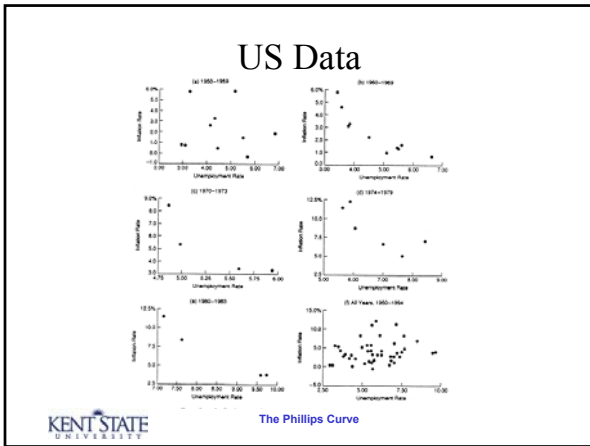
The Phillips Curve

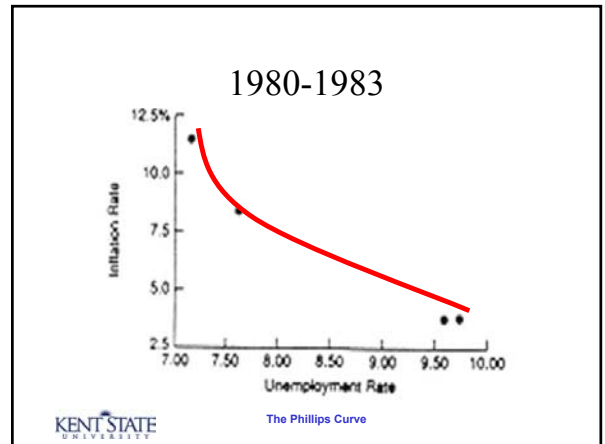
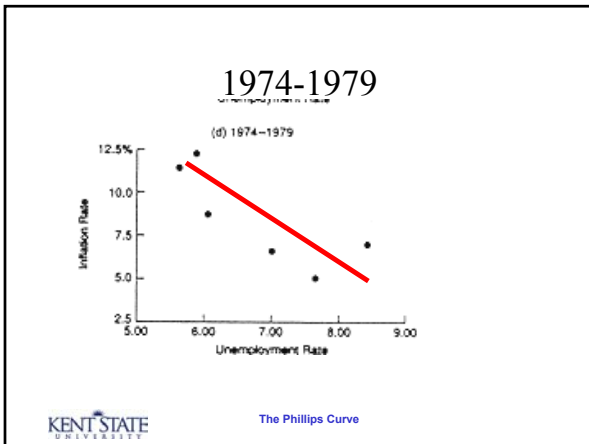
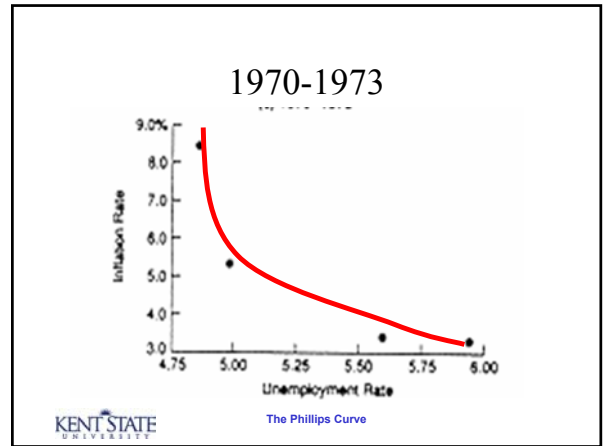
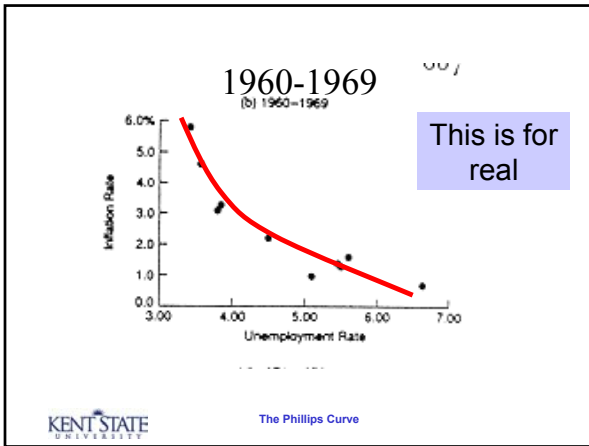
The Choice



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The Phillips Curve





Conclusion

- No Long Run Phillips Curve
- Apparently a Short Run Phillips Curve, when inflation rate differs from expected rate.

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Our Task

- How do we Explain these findings?
- And how do we incorporate them into the model?

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End

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