


Phillips Curve

A curve that is used to graphically represent a negative relationship between inflation and unemployment.

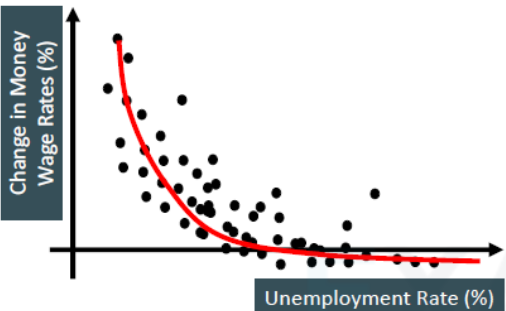
Used by policymakers to show there is a **trade-off** which can be exploited to achieve macroeconomic objectives.

Origins of the Phillips Curve

1958	A. W. Phillips
	Collected years of data on money wage rates and the unemployment rate in the US.

Statistical Findings:

Wages	▲	Unemployment	▼
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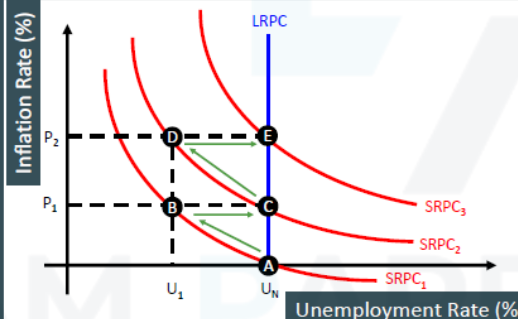
SRPC and LRPC

Menu of choice available to Govt.

Low Unemployment	Inflation	▲
Low Inflation	Unemployment	▲

But is this always the case?

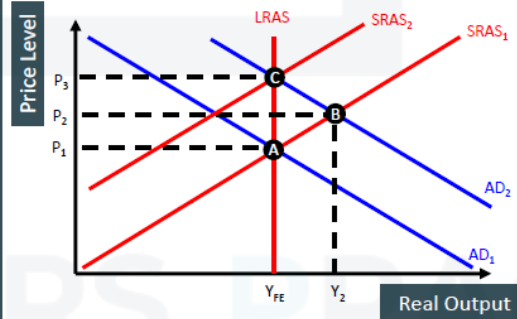
In the 1970's monetarists provided a counterargument for the long-run.



AD/AS Equivalent

The theory of the LR Phillips curve conforms to the Classical school of thought of inflation.

Recession		Boom	
AD	▼	AD	▲
Unemployment	▲	Unemployment	▼
Inflation	▼	Inflation	▲



https://www.google.com/search?q=econplustdal+long+run+phillips+curve&rlz=1C1GCEV_en&oq=econplustdal+phi&aqs=chrome.2.69i57j0l3.5927j0j7&sourceid=chrome&ie=UTF-8&safe=active&ssui=on

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In 2014, George Osborne revived the idea of 'full employment' as a macroeconomic goal but what is actually meant by full employment is often debated by economists, with some arguing that a natural rate of unemployment exists. Explain the factors which might determine the natural rate of unemployment. [15 marks]

Between 2011 and 2016, UK unemployment fell from a high of 8.5% to 4.8%. Some argue that government attempts to reduce unemployment inevitably lead to trade-offs with other macroeconomic policy objectives. Explain how government policies can reduce the natural rate of unemployment. [15 marks]

In recent years, growth rates in the UK have been low and unemployment has risen. For example, in 2012 output was still below its peak of 2008 and unemployment had risen from 6.4% from 7.8%. Evaluate the view that a reduction in UK unemployment is best achieved through the use of supply-side policies. [25 marks]

Between 2011 and 2016, UK unemployment fell from a high of 8.5% to 4.8%. Some argue that government attempts to reduce unemployment inevitably lead to trade-offs with other macroeconomic policy objectives. Discuss the view that falling unemployment will inevitably lead to trade-offs with other macroeconomic policy objectives. [25 marks]