

CONCEPT: SHORT-RUN PHILLIPS CURVE

- Two of the main macroeconomic concerns for policy makers are **unemployment** and **inflation**

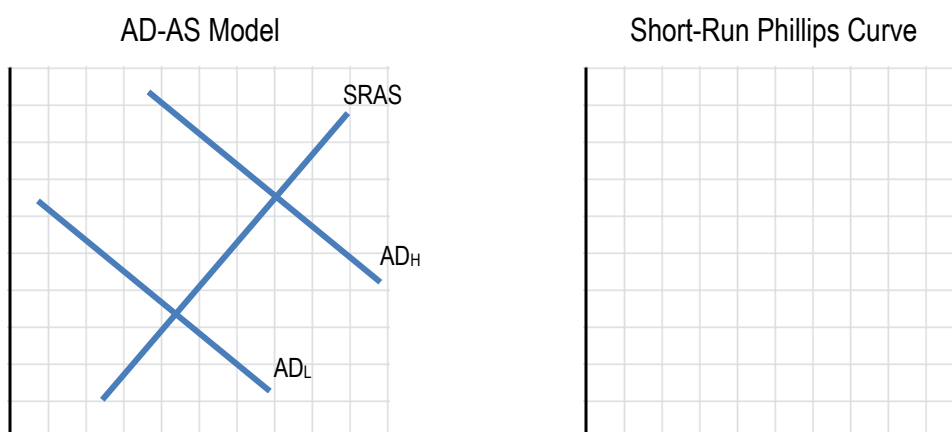
□ However, it is hard to control both at the same time!

> If Aggregate Demand increases → Price Level ____ and Unemployment ____

> If Aggregate Demand decreases → Price Level ____ and Unemployment ____

EXAMPLE: Assume Year 1 is the base-year (price level = 100) and we are analyzing possible situations for Year 2.

Short-Run Phillips Curve



- **Phillips Curve** – a graph showing the relationship between the _____ and _____
- > As inflation increases, unemployment _____
 - > As inflation decreases, unemployment _____