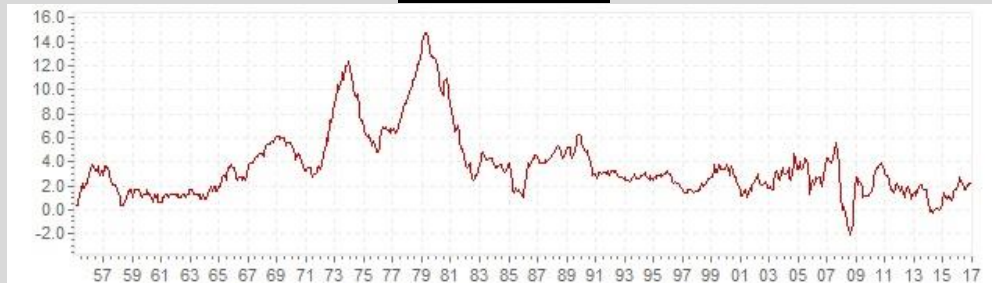


CONCEPT: DISINFLATION AND DEFLATION

- **Disinflation** – a significant reduction in the _____
 - Note that inflation is still _____ during disinflation, but at a _____ rate
 - Historical context: USA in the 1970s-1980s and Paul Volcker Disinflation

- During the 1970s, the USA experienced high inflation rates

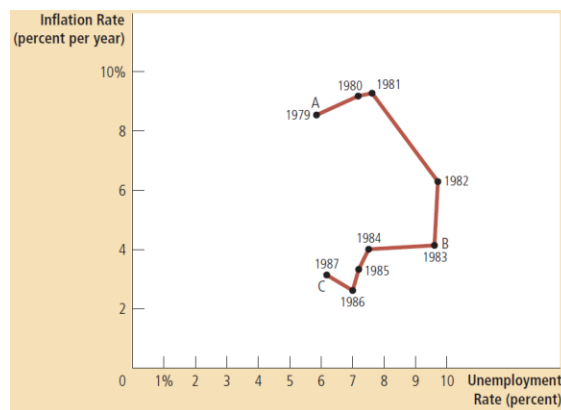
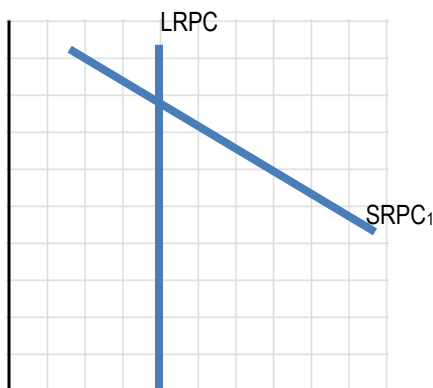
US Inflation Rates



Source: Bureau of Labor Statistics

- In 1979, President Jimmy Carter appointed Paul Volcker as Chairman of the Federal Reserve
 - Volcker's strict anti-inflation monetary policy brought inflation down from 10% down to 4%
 - Contractionary monetary policy brought inflation down, but increased short run unemployment (see graph below)
 - As workers and firms lowered their expectations of future inflation, the SR Phillips curve shifted left (same graph)
- Fiscal policy during the Reagan era of the 1980s did not help combat inflation
 - Increases in the budget deficit through increased spending, led to higher aggregate demand → more inflation

Phillips Curve and Contractionary Policy



- **Deflation** – a decline in the price level

- ☐ During deflation, the inflation rate is _____
- ☐ Note the difference between disinflation and deflation
 - > Disinflation – inflation still occurring but at a slower rate
 - > Deflation – lower price level in the economy

Year	Consumer Price Index	Inflation Rate
1929	17.1	0.0%
1930	16.7	-2.3%
1931	15.2	-9.0%
1932	13.7	-9.9%
1933	13.0	-5.1%
1979	72.6	11.3%
1980	82.4	13.5%
1981	90.9	10.3%
1982	96.5	6.2%
1983	99.6	3.2%