Macroeconomics 1 – Seminar 11

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The original Phillips curve shows that:

a. there is no relationship between inflation and unemployment.

b. high inflation leads to high unemployment.

c. high inflation leads to low unemployment.

d. low inflation leads to low unemployment.

When the Fed increases the money supply faster than expected, there will be in the short run _________ the short run Phillips curve.

a. an upward shift of

b. a downward shift of

c. a movement up and to the left along

d. a movement down and to the right along

When, in the long run, people get used to, and come to expect, a higher inflation rate, there will be _________ the short run Phillips curve.

a. an upward shift of

b. a downward shift of

c. a movement up and to the left along

d. a movement down and to the right along

When the Fed increases the money supply slower than expected, there will be in the short run _________ the short run Phillips curve.

a. an upward shift of

b. a downward shift of

c. a movement up and to the left along

d. a movement down and to the right along

When, in the long run, people get used to, and come to expect, a lower inflation rate, there will be _________ the short run Phillips curve.

a. an upward shift of

b. a downward shift of

c. a movement up and to the left along

d. a movement down and to the right along

Friedman and Phelps argued that in the:

a. long run, inflation has no effect on unemployment.
b. short run, inflation has no effect on unemployment.
c. short run, unemployment has no effect over inflation.
d. none of the above.

Friedman and Phelps argued that the Phillips curve was:

a. downward sloping in the long run.

b. upward sloping in the short run.

c. vertical in the long run.

d. vertical in the short run.

According to Friedman and Phelps, if actual inflation is greater than expected inflation, the unemployment rate will:

a. be greater than the natural rate of unemployment.

b. be lower than the natural rate of unemployment.

c. increase along with the natural rate of unemployment.

d. decrease, along with the natural rate of unemployment.

According to Friedman and Phelps, if actual inflation is less than expected inflation, the unemployment rate will:

a. be greater than the natural rate of unemployment.

b. be lower than the natural rate of unemployment.

c. increase along with the natural rate of unemployment.

d. decrease, along with the natural rate of unemployment.

If there is high inflation and the Fed follows a policy to reduce the inflation rate, we can expect that in the short run, the economy will experience _________ with _________ unemployment.

a. fast growth, low

b. fast growth, high

c. a recession, low

d. a recession, high

Suppose the natural rate of unemployment is 6%. On one graph, draw two Phillips curves that describe the four situations listed here. Label the point that shows the position of economy in each case.

a. Actual inflation is 5%, and expected inflation is 3%.
b. Actual inflation is 3%, and expected inflation is 5%.
c. Actual inflation is 5%, and expected inflation is 5%.
d. Actual inflation is 3%, and expected inflation is 3%.

Suppose that a fall in consumer spending causes a recession.

a. Illustrate the immediate change in the economy using both an aggregate-supply/aggregate-demand diagram and a Phillips-curve diagram. On both graphs, label the initial long-run equilibrium as point A and the resulting short-run equilibrium ads point B. What happens to inflation and unemployment in the short run? In the short run there is a decline in inflation and increase in unemployment.

b. Now suppose that over time expected inflation changes in the same direction that actual inflation changes. What happens to the position of the short-run Phillips curve? After the recession is over, does the economy face a better or worse set of inflation-unemployment combination? There is a downward shift in short-run Phillips curve. After the recession, unemployment is at its natural rate, however there is lower inflation rate in the economy.