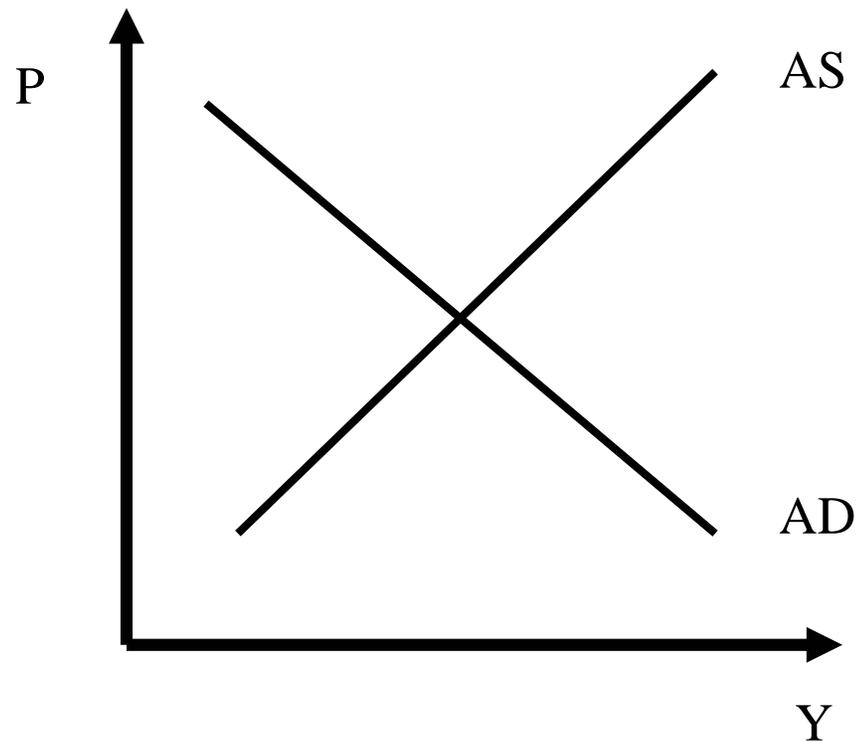


# Lecture 14: AD-AS + The Phillips Curve

- Review: Aggregate supply and demand
- The Phillips curve

# AD-AS: Canonical Shocks



Monetary expansion; fiscal expansion; oil shock (figs 7-9/7-10/7-11)

# The Phillips Curve

\* The price level vs The inflation rate

$$P(t) = P^e(t) (1 + \mu) F(u(t), z)$$

$\approx \Rightarrow$

$$\pi(t) = \pi^e(t) + (\mu + z) - \alpha u(t)$$

\* original Phillips curve; Figures: 8-1/8-2/8-3/8-4/8-5

# The Phillips Curve and The Natural Rate of Unemployment

$$\pi^e(t) = \pi(t)$$

$\Rightarrow$

$$u_n = \frac{(\mu + z)}{\alpha}$$

$$\pi(t) = \pi^e(t) - \alpha (u(t) - u_n)$$