



Helping Students with the Phillips Curve

Presenter



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Phillips Curve



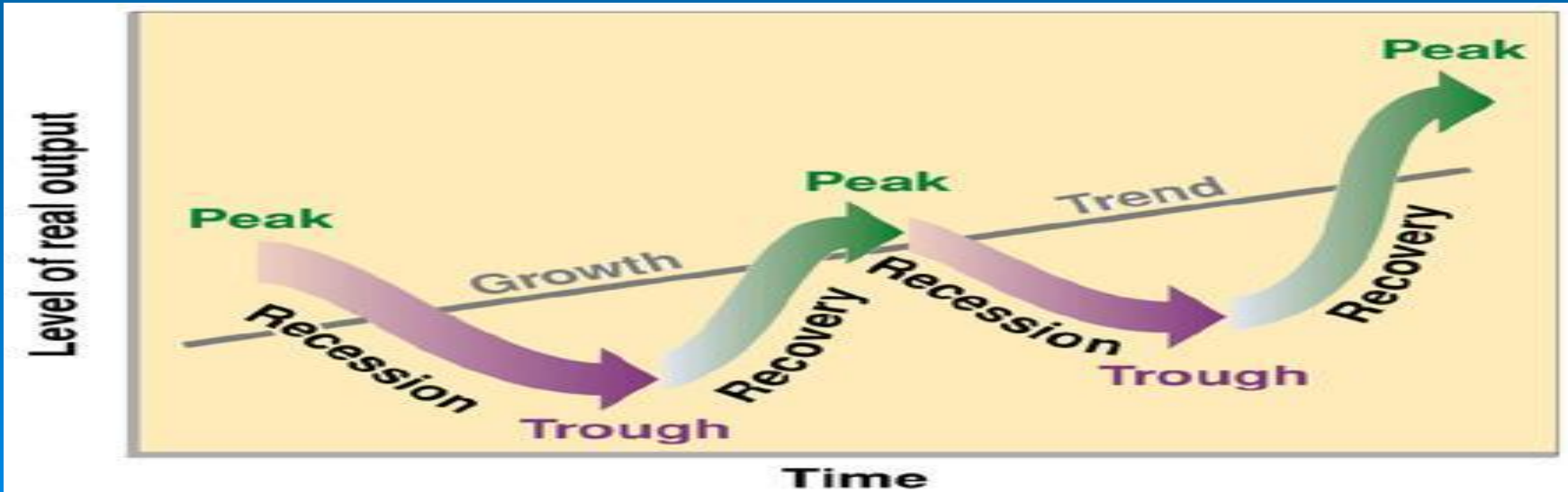
William Phillips

From the CED

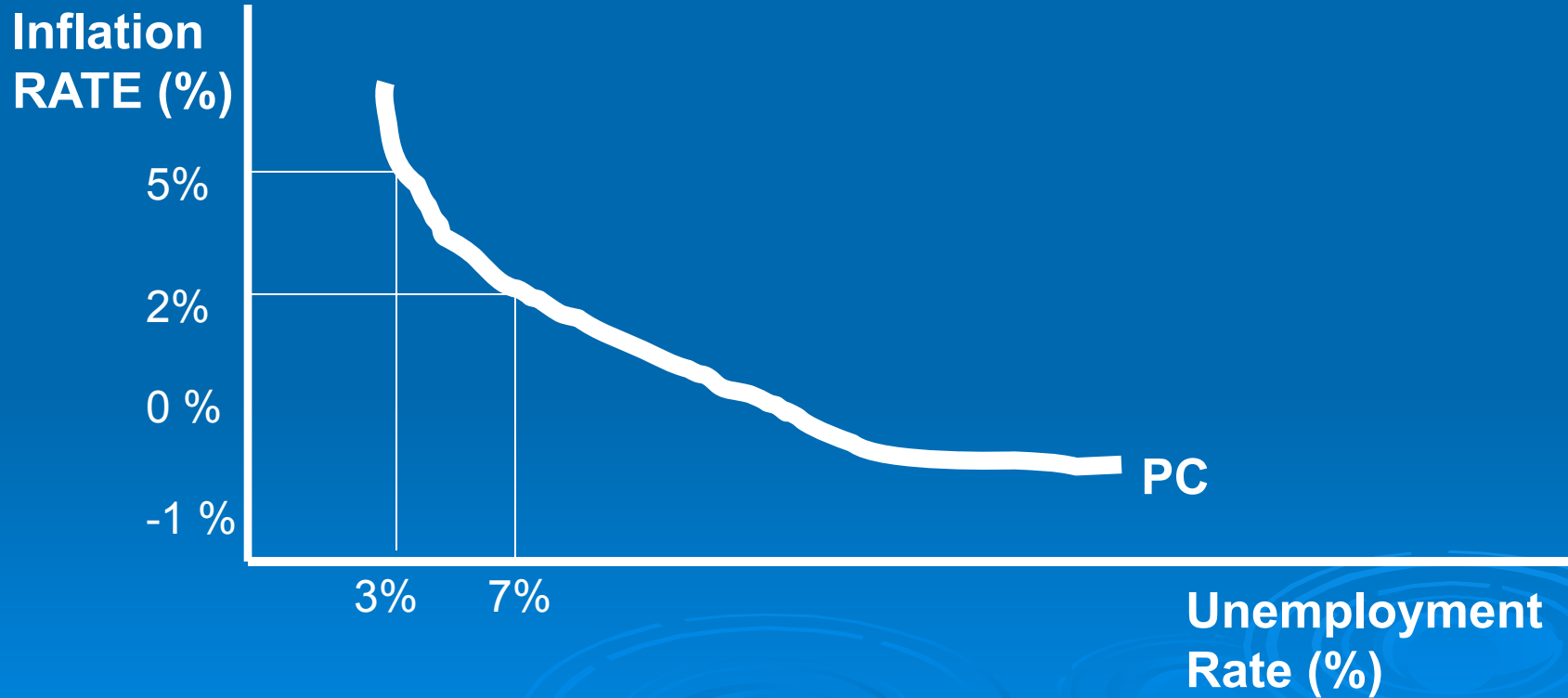
Questions involving the Phillips curve model are a common challenge area for students on the AP Exam. As with other models introduced in the course, it's important to spend time first establishing the assumptions behind the model and provide sufficient time practicing graphing given economic situations and changes. Students should understand the importance of proper labeling, the difference between movement along the curve versus shifts of the curve, and the distinction between the short run and the long run.

Inflation to Unemployment

- Inflation to unemployment typically seen as a negative relationship
- Recall the business cycle:



Phillips Curve on a Graph?



The CB Model from the CED

THE PHILLIPS CURVE MODEL

Associated Learning Objectives

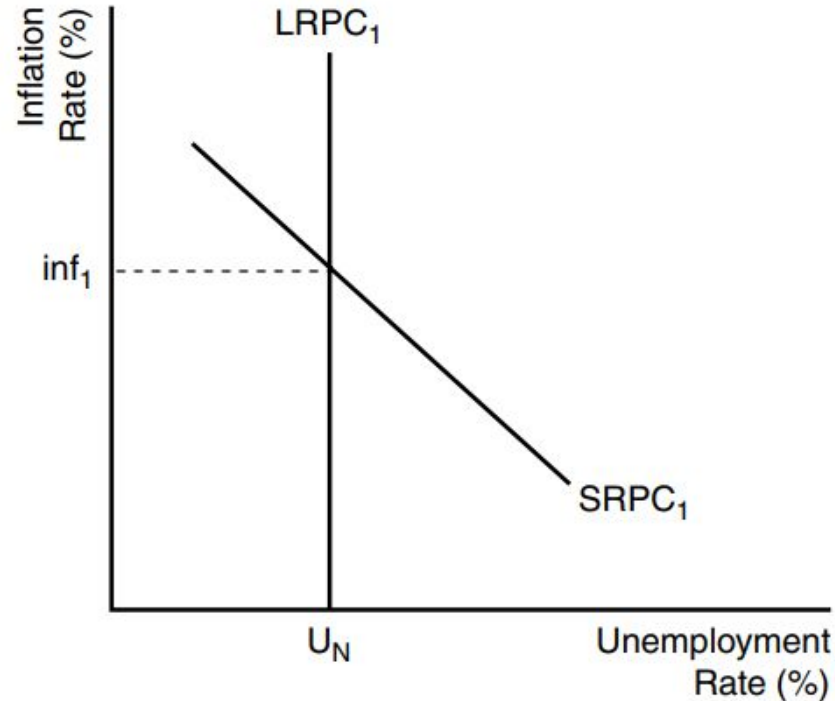
MEA-2.A

MOD-3.A

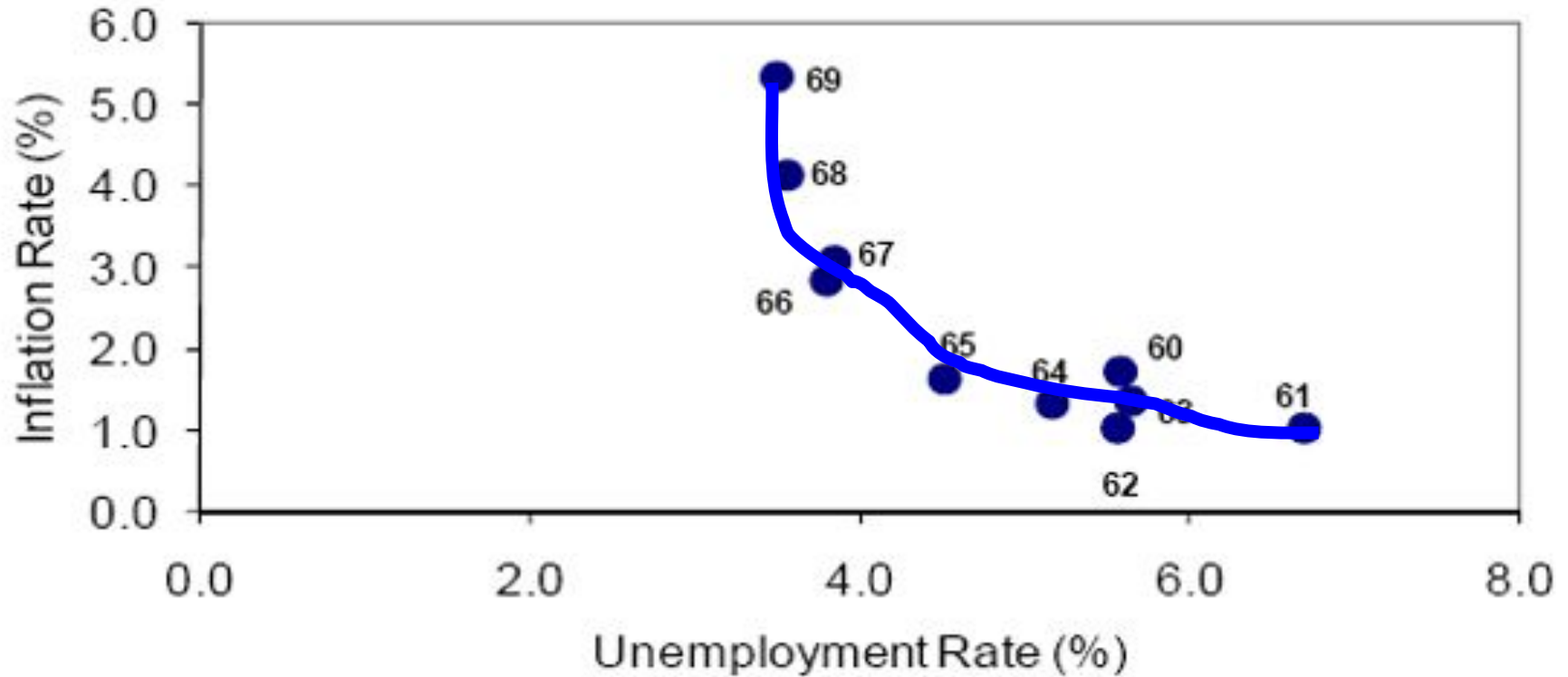
MOD-3.B

POL-3.A

Example

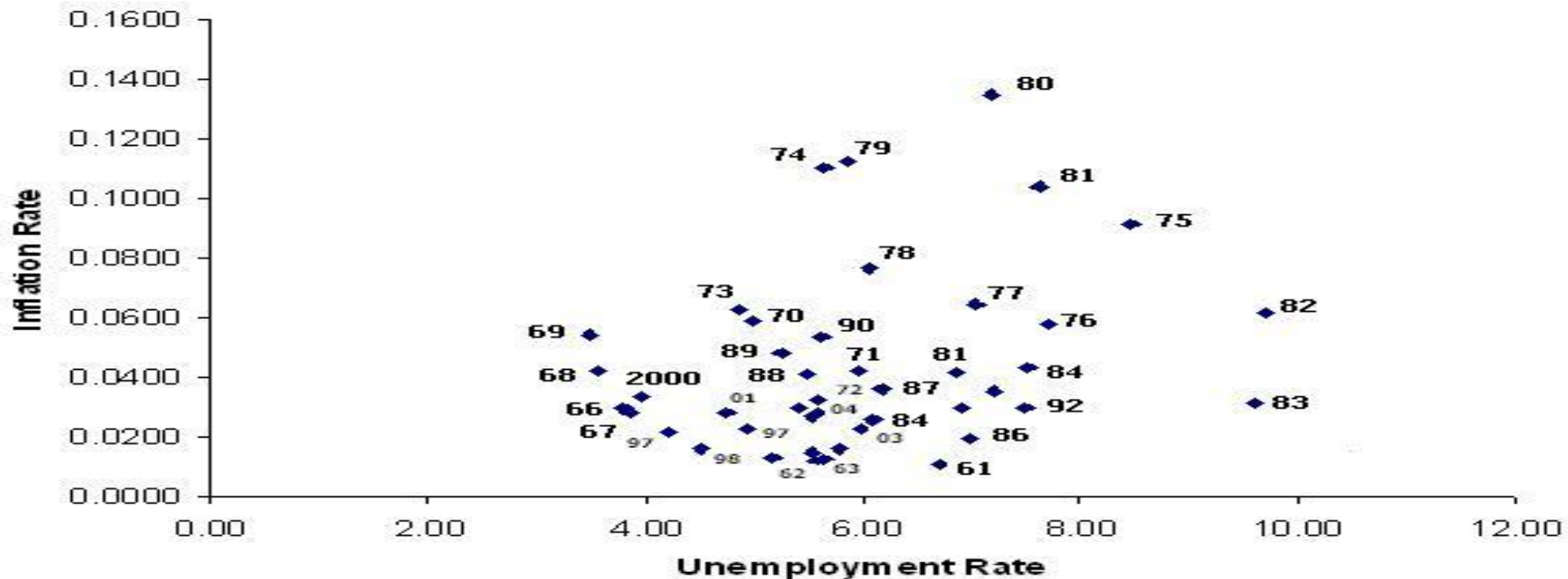


Historically?



Post 1960s?

Phillips Curve 1960-2004



Two approaches

Figure 6 Inflation vs. Unemployment
1961-1992

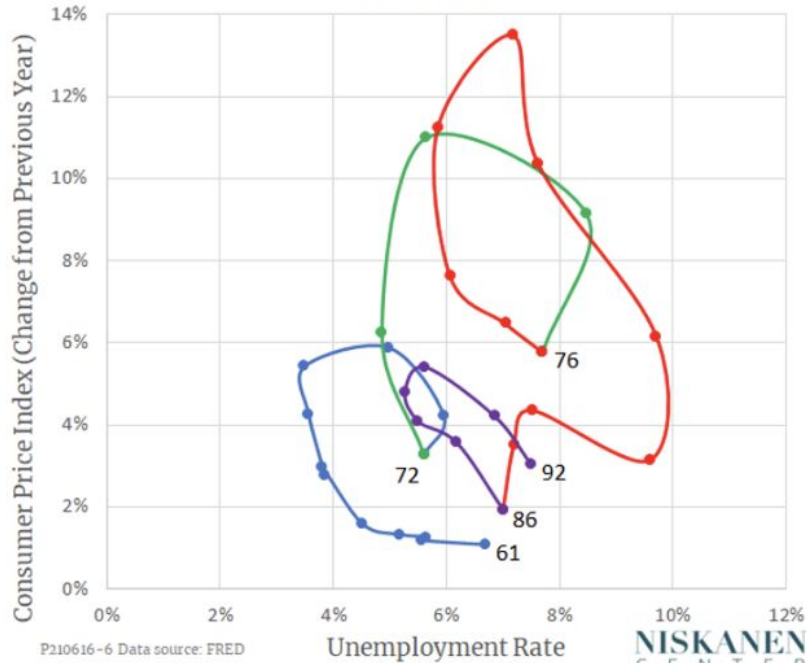
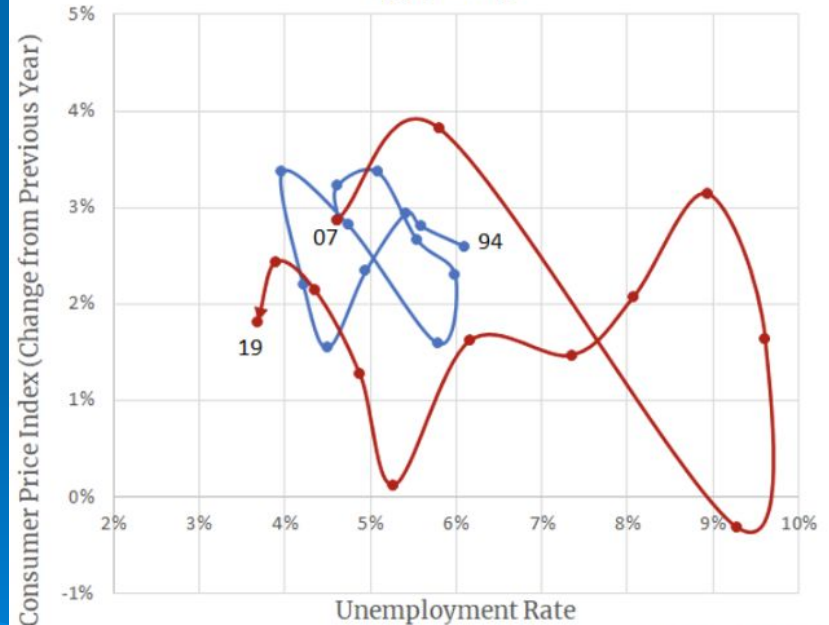
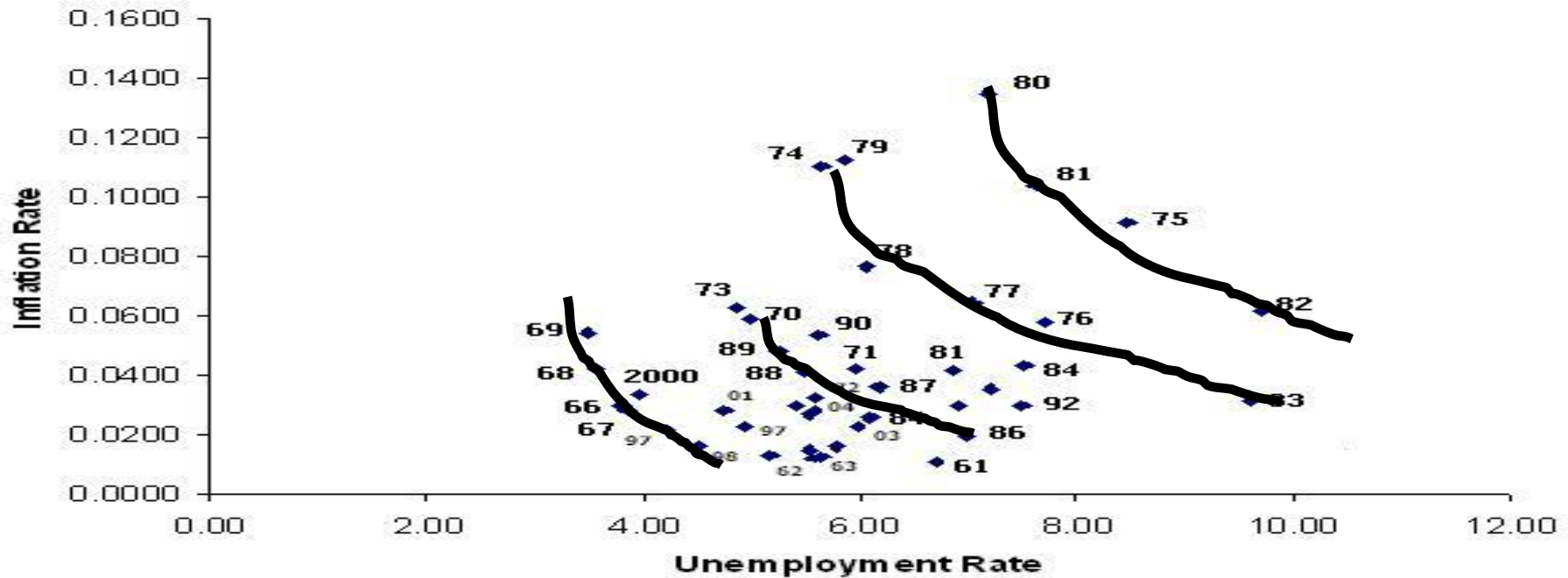


Figure 7 Inflation vs. Unemployment
1994-2019



Can the Phillips curve shift?

Phillips Curve 1960-2004

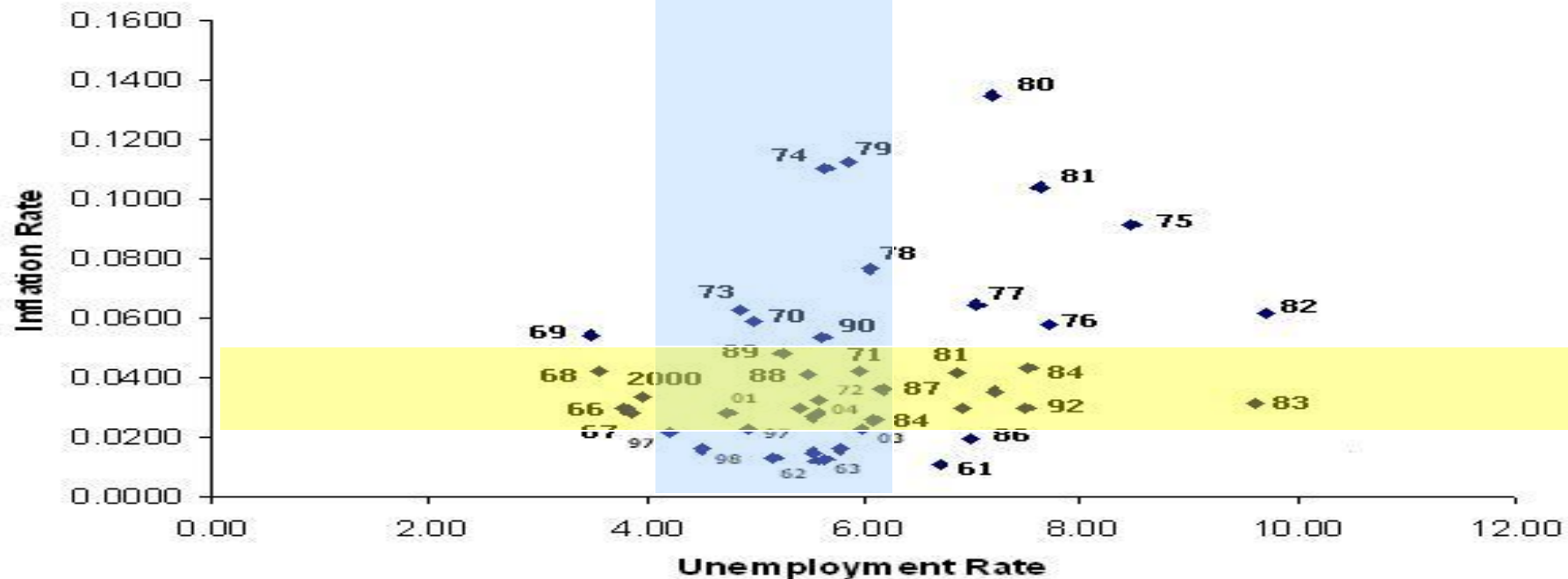


Source: FRED data base, St. Louis Federal Reserve Bank of St. Louis. Author's calculations.

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Long Run?

Phillips Curve 1960-2004



History Repeating?

Figure 1 Inflation vs. Unemployment
May 2020 to May 2021

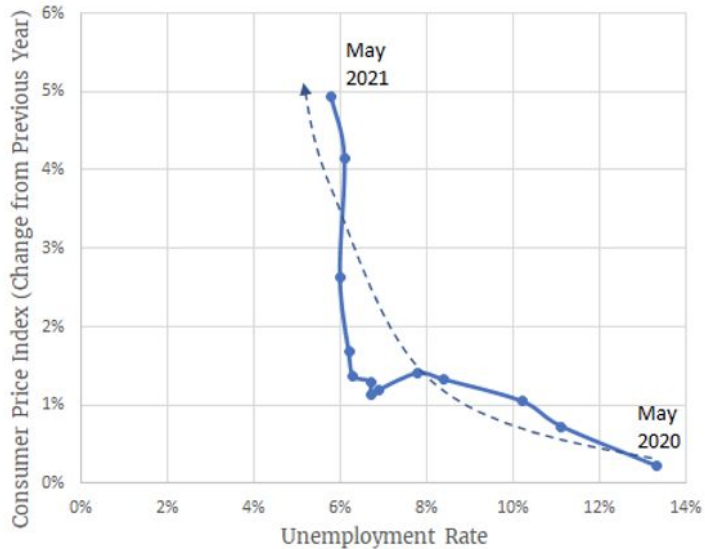
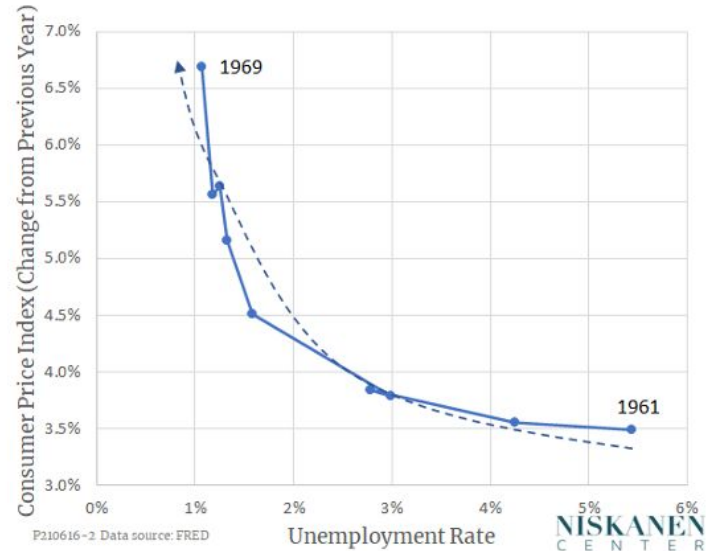
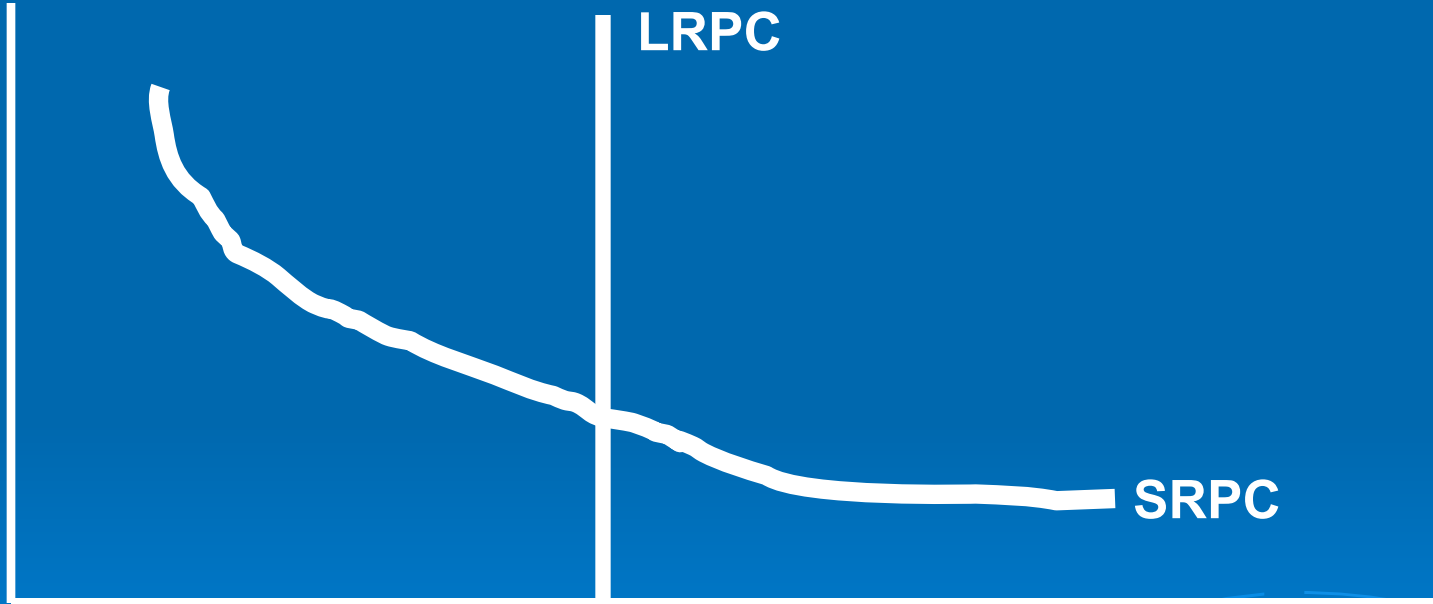


Figure 2 Inflation vs. Unemployment
1961-1969



Short Run vs. Long Run

Inflation
RATE (%)

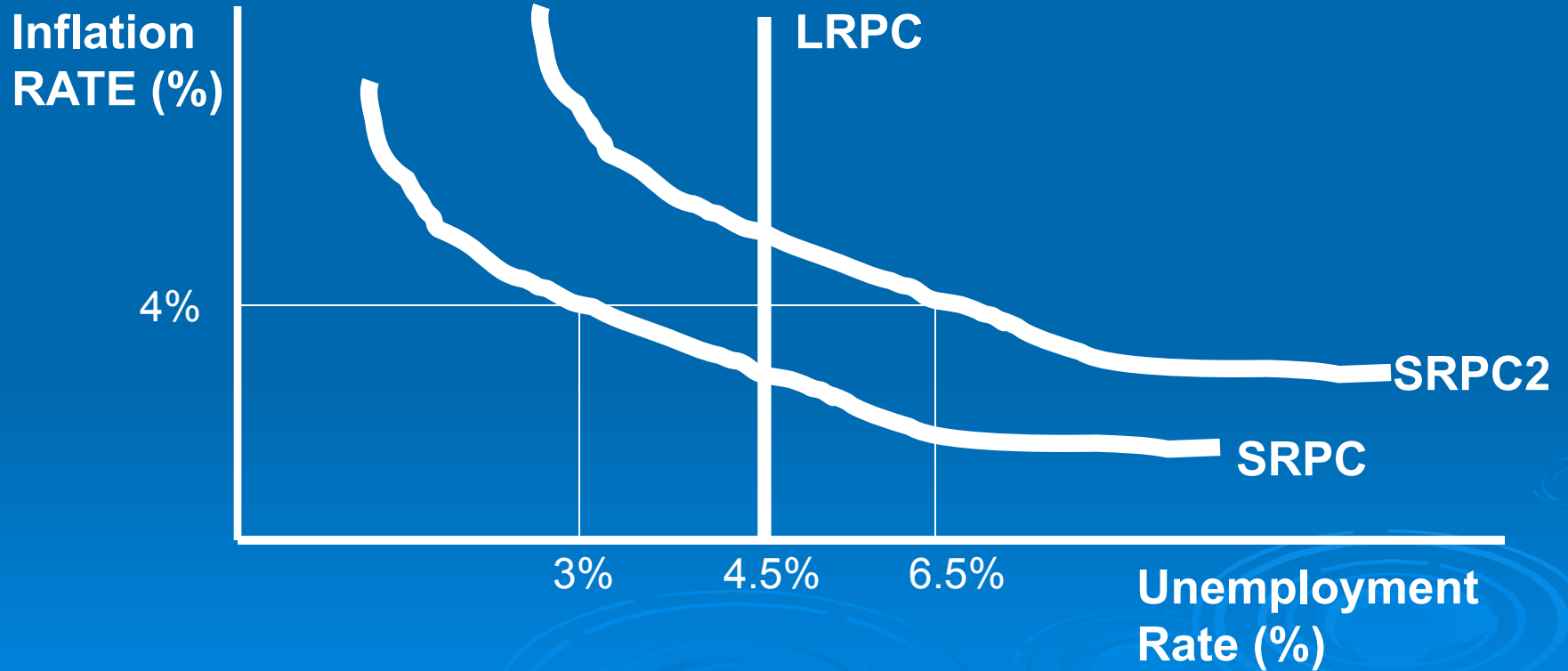


LRPC

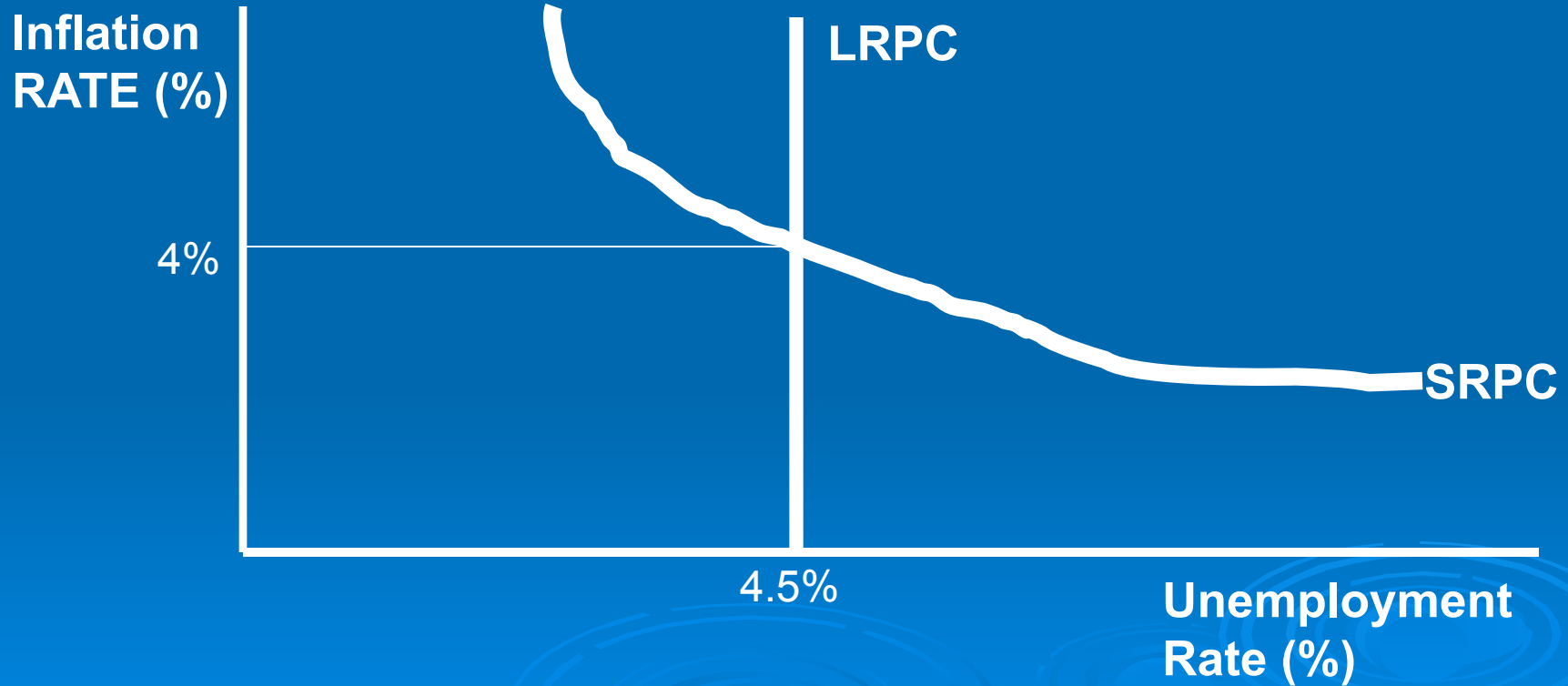
SRPC

Unemployment
Rate (%)

Shift in Phillip's Curve



Long Run Equilibrium



Phillips Curve “rules”

- In SR there is a tradeoff btw unem. & PL
- If AD shifts, we move ON the PHILLIPS CURVE
 - Increase in AD, move “up” the PC
 - Decrease in AD, move “down” the PC

Phillips Curve “rules”

- IF SRAS shifts, we SHIFT the SRPC
 - **Increase** in SRAS moves SRPC LEFT!!!!!!
 - **Decrease** in SRAS moves SRPC RIGHT!!!!!!

- IF LRAS shifts, we shift the LRPC
 - Same rules as SRAS in regards to right/left

When Asked?

2006

2009

2010b

2011

2011b

2013

2016

2017

2019

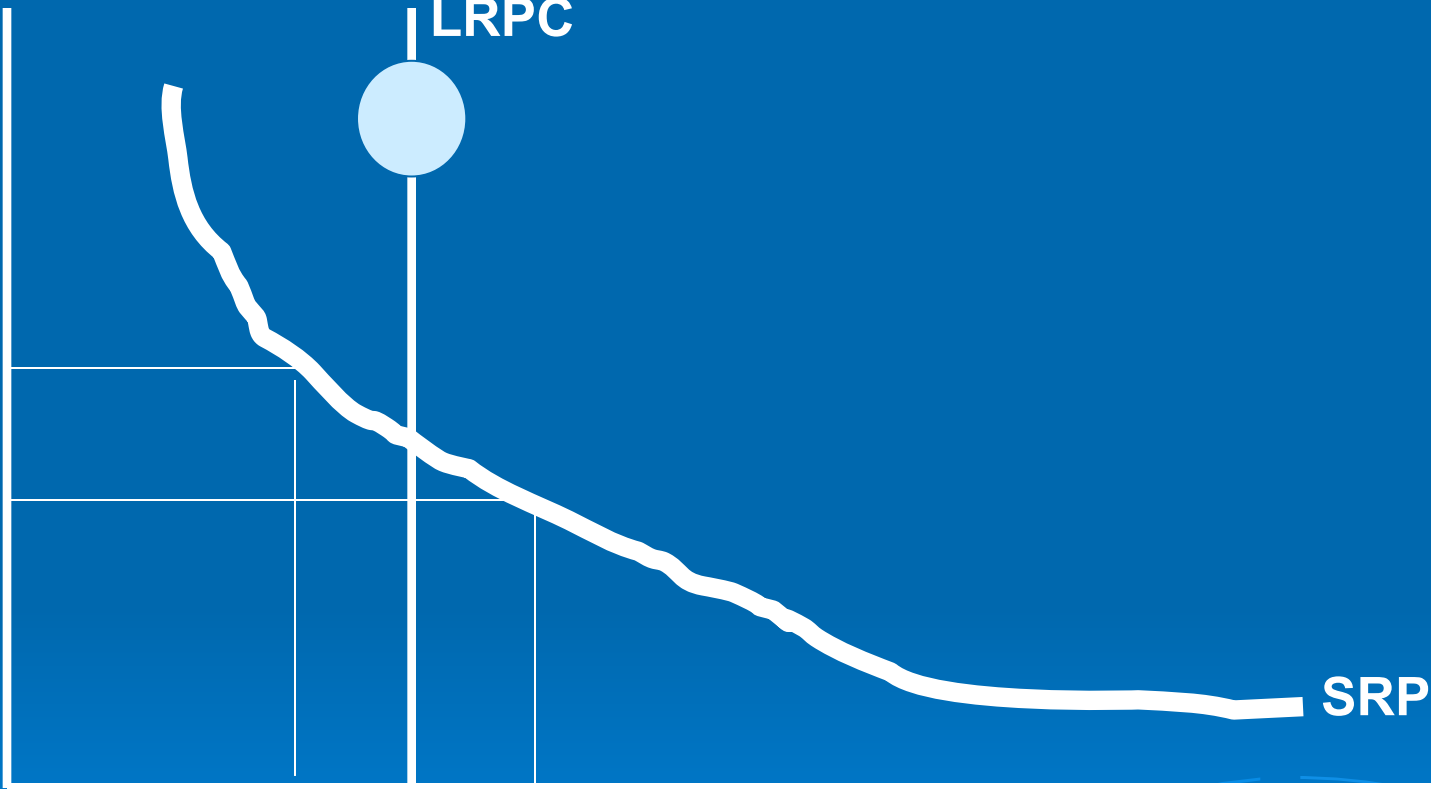
Lessons/Resources

[Econed Link - Phillips Curve](#)

[Khan Academy](#)

[AP Central Review](#)

**Inflation
RATE (%)**

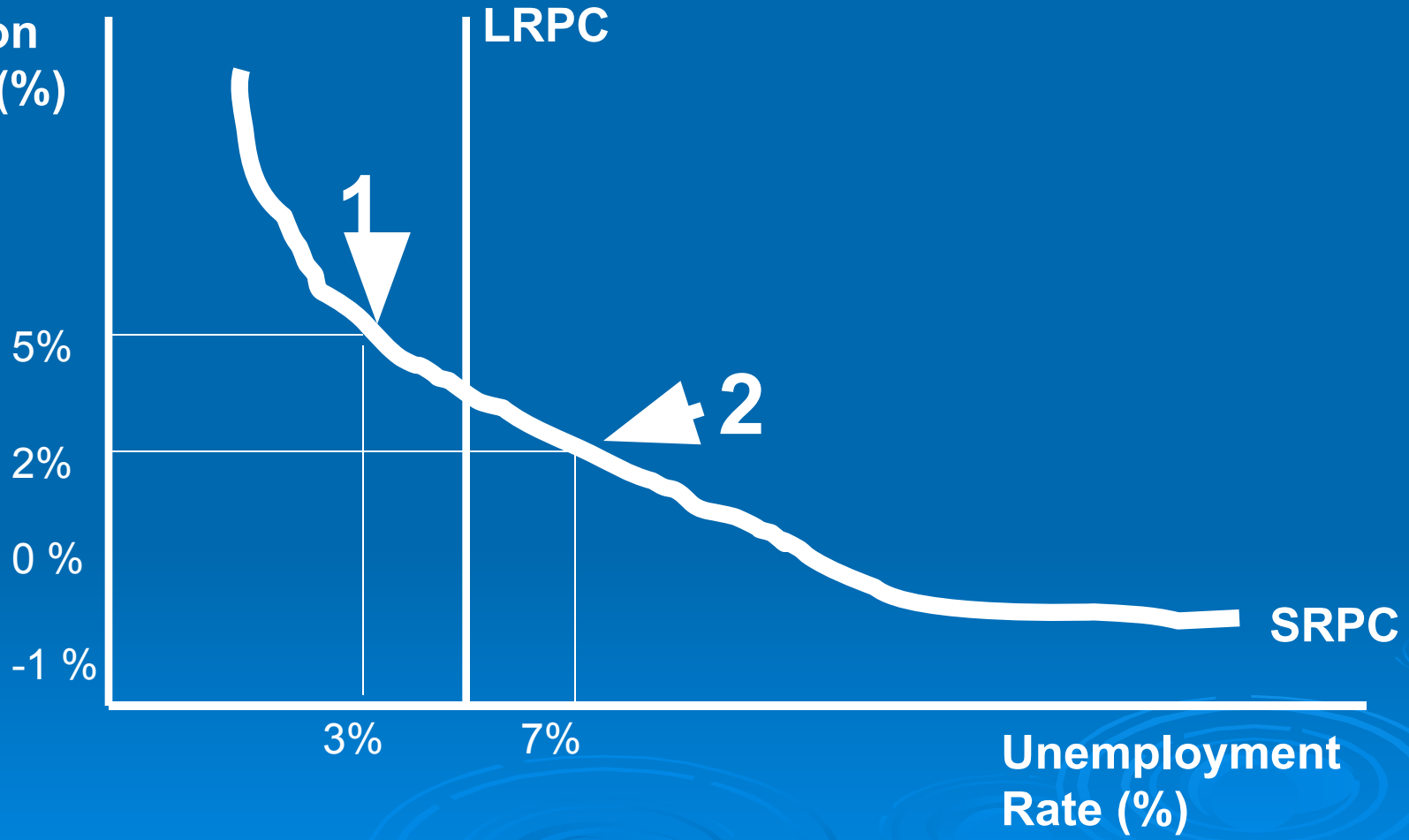


LRPC

SRPC

**Unemployment
Rate (%)**

**Inflation
RATE (%)**



Practice side by side with ADAS

Phillips Curve Practice.

On the left side of each box, use AD/AS analysis to illustrate each statement. On the right side, demonstrate the effects on inflation/unemployment using a correctly labeled Phillips Curve. All statements are made ceteris paribus.

1. US trade partners suddenly purchase large amounts of US-made merchandise.

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2. There is a short run burst of labor productivity and a new discovery of a large amount of natural gas in Nebraska.

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Gives
students
practice with
BOTH!

*answer key
coming soon!

Let's try it!

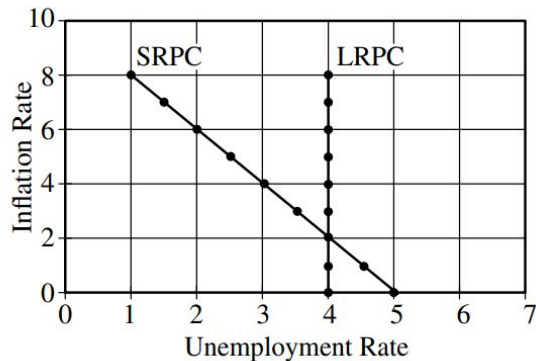


Join Instructions

INSTRUCTIONS FOR GUEST STUDENTS ⓘ

1. Go to app.formative.com/join
2. Enter Code: **86XNRW**

Don't forget about MC!



14. The diagram above shows the short-run Phillips curve (SRPC) and the long-run Phillips curve (LRPC) for an economy. If the rate of inflation is currently 6%, what is the current unemployment rate?
- (A) The current unemployment rate is 1%.
 - (B) The current unemployment rate is 2%.
 - (C) The current unemployment rate is 3%.
 - (D) The current unemployment rate is 4%.
 - (E) The current unemployment rate is 5%.

From the
Collegeboard
CED

Practical Tips

- Practice in CONTEXT - remember, the PC is responsive to AD/AS - not other way around
- Draw draw draw
- It's theory - don't get caught up in real life "what ifs"