

## Learning Objectives

### Chapter 35

#### **In this chapter you will**

- Learn why policy makers face a short-run trade-off between inflation and unemployment
- Consider why the inflation-unemployment trade-off disappears in the long run
- See how supply shocks can shift the inflation-unemployment trade-off
- Consider the short-run cost of reducing the rate of inflation
- See how policy makers' credibility affects the cost of reducing inflation

#### **You should be able to**

- Draw a graph of a short-run Phillips curve
- Draw a graph of a long-run Phillips curve
- Show the relationship between a shift in the short-run aggregate supply curve and a shift in the short-run Phillips curve
- Explain the sacrifice ratio
- Explain why more than rational expectations are needed to reduce inflation costlessly