Learning Objectives

Chapter 36

In this chapter you will

- Learn how the Philips curve developed
- 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
- Look at arguments for central bank independence
- Consider the short-run cost of reducing the rate of inflation
- Cover policies used by governments to target 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
- Show how the Philips curve and aggregate demand/aggregate supply analysis are linked
- Explain the sacrifice ratio
- Explain why more than rational expectations are needed to reduce inflation costlessly
- Describe the policy measures used by governments to reduce the rate of growth of inflation

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N. Gregory Mankiw and Mark P. Taylor
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