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

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

\[ \approx \]

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

The Phillips Curve and The Natural Rate of Unemployment

\[ \pi^e(t) = \pi(t) \]

\[ \Rightarrow \]

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

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