**Phillips Curve– Introduction**   **Name** _____

In this lesson you will graph the original Phillips Curve and draw conclusions from the graph.

[1] In 1960 A. H. Phillips observed that when prices where high, unemployment was low. Using data from the 1960s on inflation and unemployment, graph the original Phillips Curve.

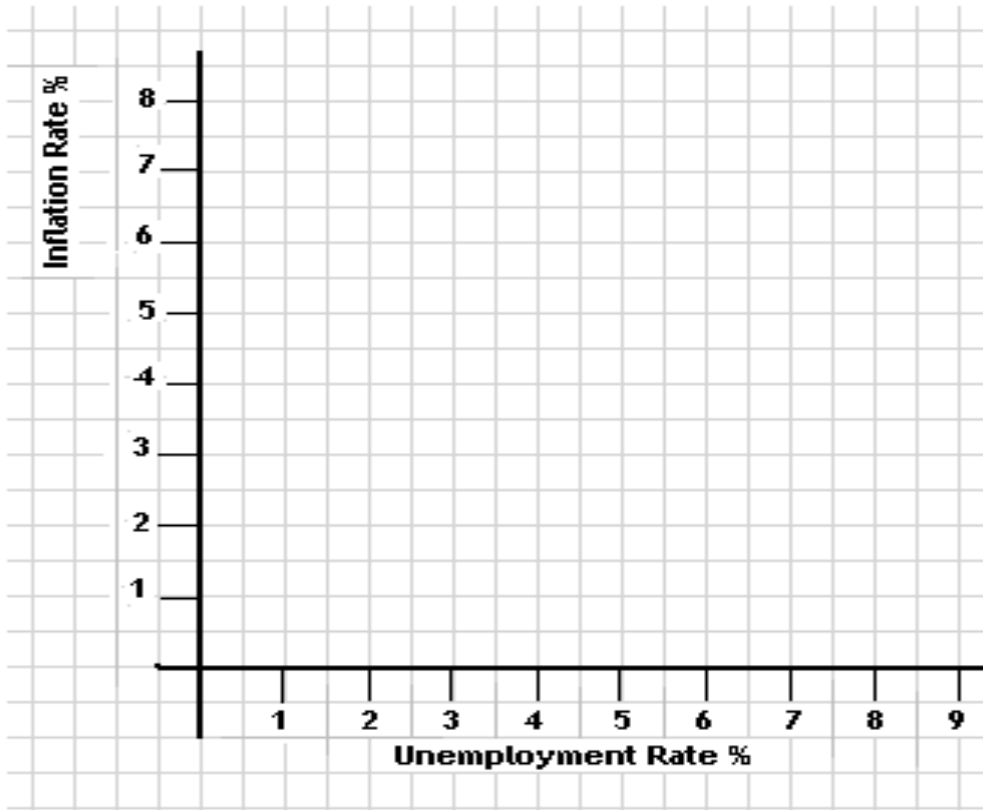| Year	Unemployment	Inflation
1960	5.54	1.7
1961	6.69	1.1
1962	5.57	1.2
1963	5.64	1.2
1964	5.16	1.3
1965	4.51	1.6
1966	3.79	2.9
1967	3.84	3.1
1968	3.56	4.2
1969	3.49	5.5
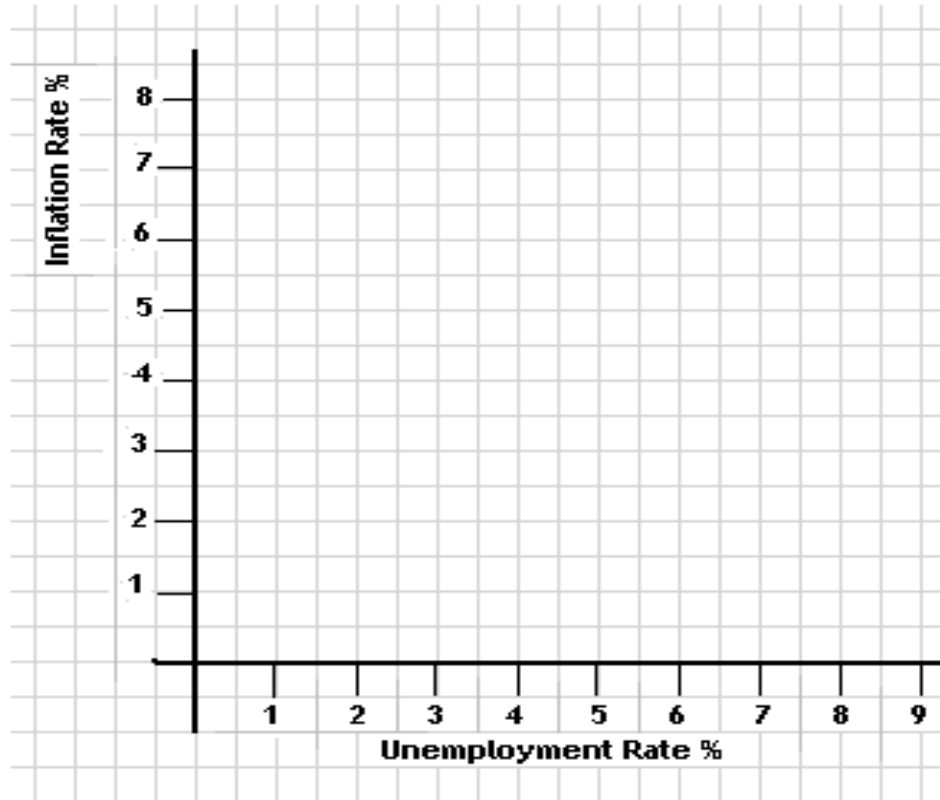
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Phillips Curve- Assignment   **Name** _____

Directions: Assume that the natural rate of unemployment in Alpha is 6%. Also, the formula that describes the trade off between inflation and unemployment in Alpha is: $U = -3\pi - 6$, where π is the inflation rate and U is the unemployment rate. Graph the Phillips Curve on the graph below. Label the long-run supply curve, "LRS" and label your line, "PC1". Title the graph, "Phillips Curve for Alpha."   When you have completed your graph, answer questions [a], [b], and [c].

[a]At the natural rate of unemployment, what is the inflation rate? _____

[b] If Alpha economic policy makers use fiscal policy to decrease unemployment by 3%, what will the inflation rate be? _____

[c] Assume workers bargain for a wage increase that include inflationary expectations at an unemployment rate of 3%.   Draw the new Phillips Curve. Label this curve, "PC2".

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