

Lecture Recap

(Phillips Curve and NAIRU)



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- ▶ Original Phillips curve

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- ▶ If $\pi_t^e + \phi u_n = \text{constant}$, then the above two equations are equivalent.
- ▶ Assuming adaptive expectations, $\pi_t^e = \pi_{t-1}$, we get the “accelerationist Phillips curve”

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- ▶ NAIRU is the lowest unemployment rate that can be sustained without causing inflation to accelerate.
- ▶ NAIRU is not directly observable, not constant, and not known with certainty.