**The Phillips Curve**

Set up a correctly labeled Phillips Curve graph to begin each scenario.

Then, show and explain below what happens to the short-run Phillips curve. Assume the natural rate of unemployment is 5%. When showing a movement along the curve, label the initial point, A, and the new point, B. Use standard notation when shifting the curve.



**Government spending increases. The price of crude oil and most**

**sources of energy decreases.**



**Inflation expectations rise from 3% to 6%. The Fed increases interest rates with**

**contractionary monetary policy.**



**Inflation expectations fall from 5% to 2%. The government increases income taxes.**



**Tornados strike the South and Midwest Consumer confidence falls amid news of destroying much of the nations political squabbling.**

**manufacturing ability.**

# The Phillips Curve Answer Key

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**Government spending increases. AD shifts right, increasing inflation and decreasing unemployment**

**The price of crude oil and most sources of energy decreases.**

**SRAS shifts right, decreasing inflation and unemployment**

**Inflation expectations rise from 3% to 6%.**

**SRAS shifts left, increasing inflation and unemployment**

**The Fed increases interest rates with contractionary monetary policy.**

**AD shifts left, decreasing inflation and increasing unemployment**



**Inflation expectations fall from 5% to 2%. SRAS shifts right, decreasing inflation and unemployment**

**The government increases income taxes.**

**AD shifts left, decreasing inflation and increasing unemployment**

**Tornados strike the South and Midwest destroying much of the nation’s manufacturing ability. SRAS shifts left, increasing inflation and unemployment**

**Consumer confidence falls amid news of political squabbling.**

**AD shifts left, decreasing inflation and increasing unemployment**