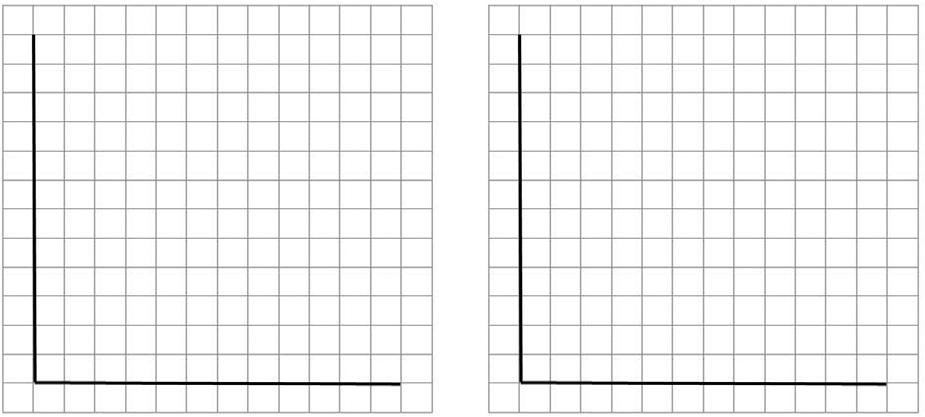
**The Phillips Curve**

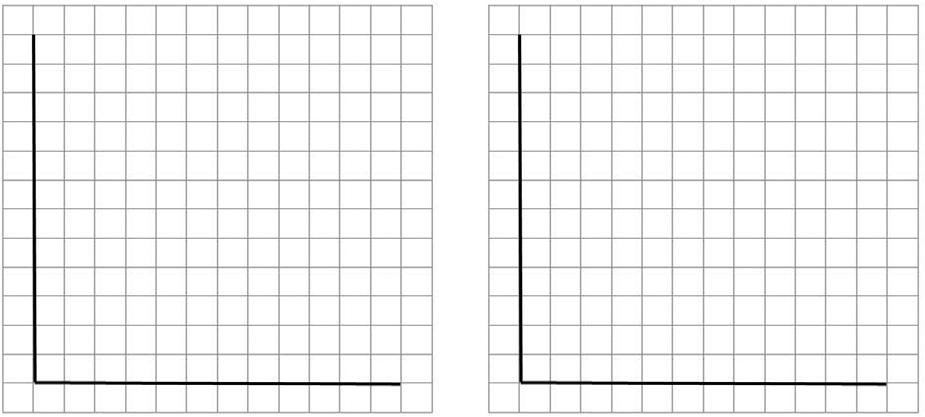
Set up a correctly labeled Phillips Curve graph to begin each scenario.

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.



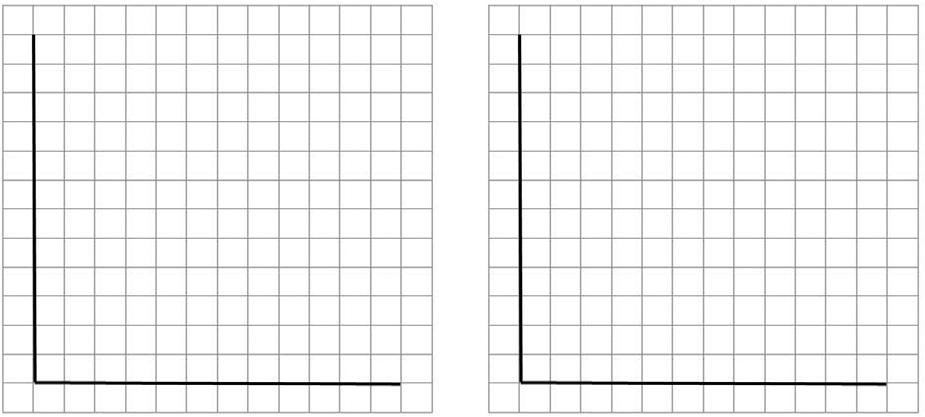
**Government spending increases. The price of crude oil and most**

**sources of energy decreases.**

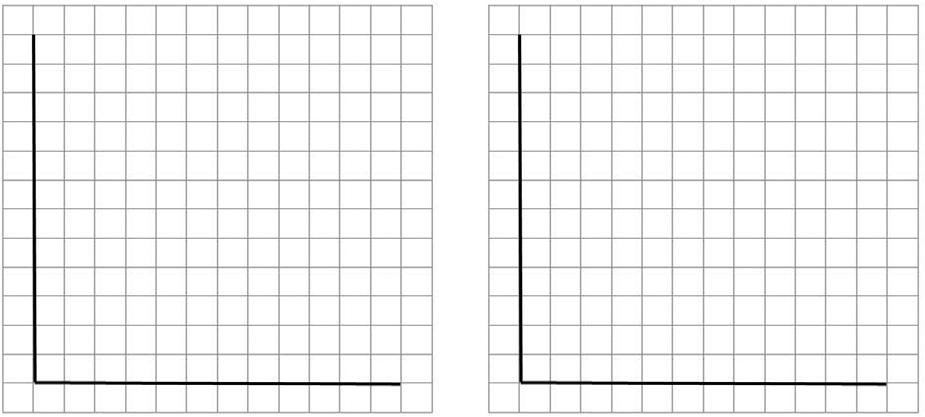


**Inflation expectations rise from 3% to 6%. The Fed increases interest rates with**

**contractionary monetary policy.**



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



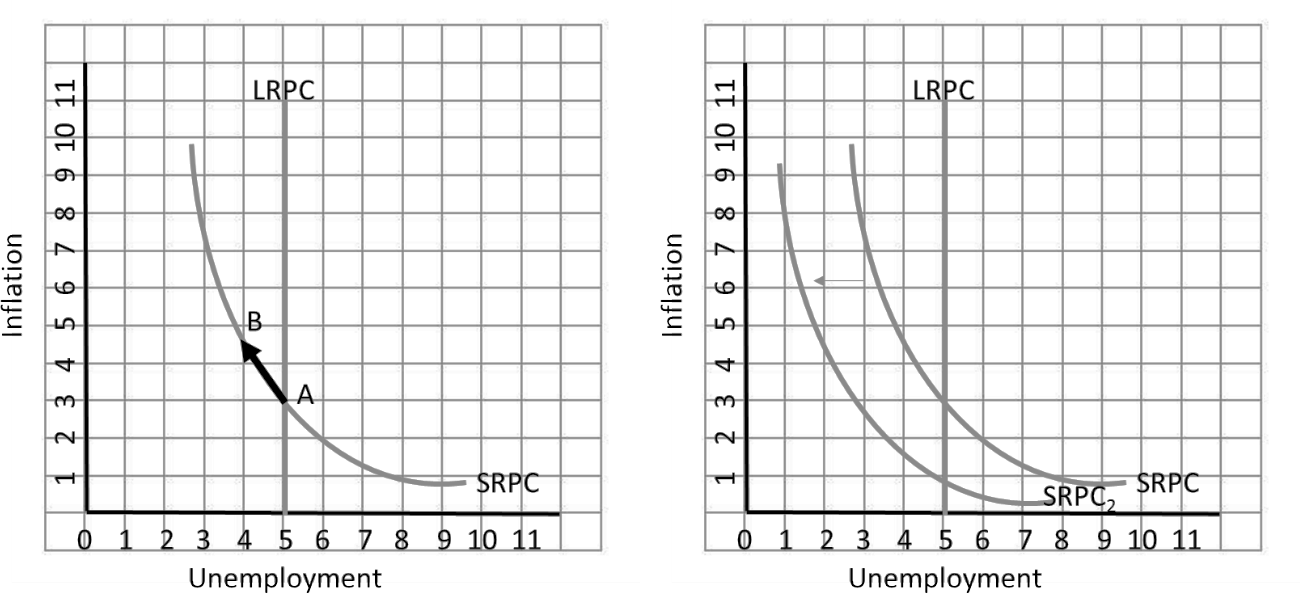
**Tornados strike the South and Midwest Consumer confidence falls amid news of destroying much of the nations political squabbling.**

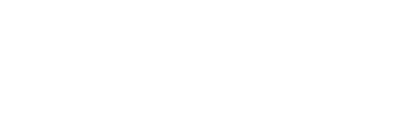
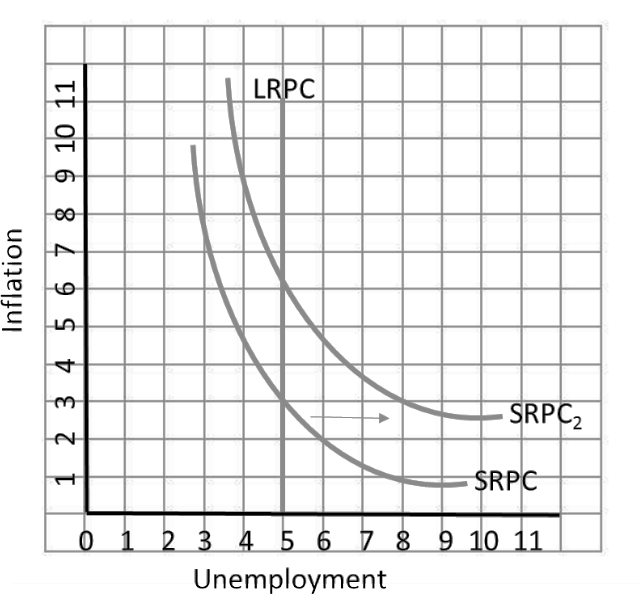
**manufacturing ability.**

# The Phillips Curve Answer Key

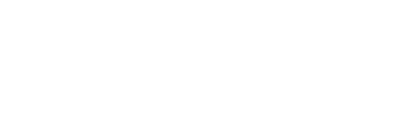
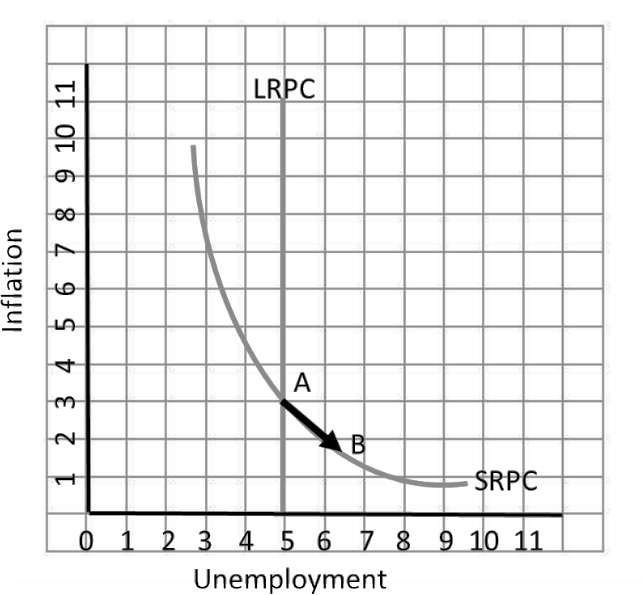
## Set up a correctly labeled Phillips Curve graph to begin each scenario.

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.



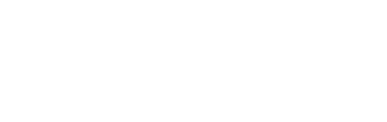


**Government spending increases. AD shifts right, increasing inflation and decreasing unemployment**



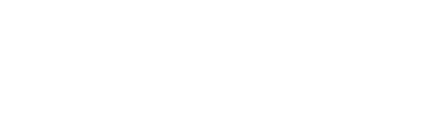
**The price of crude oil and most sources of energy decreases.**

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



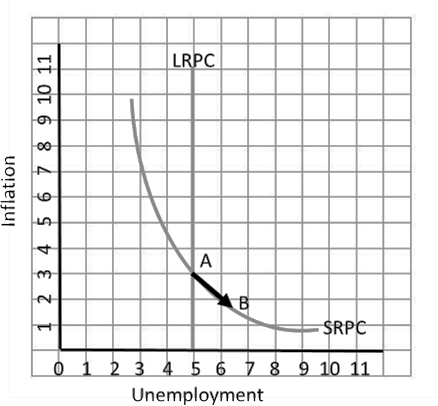
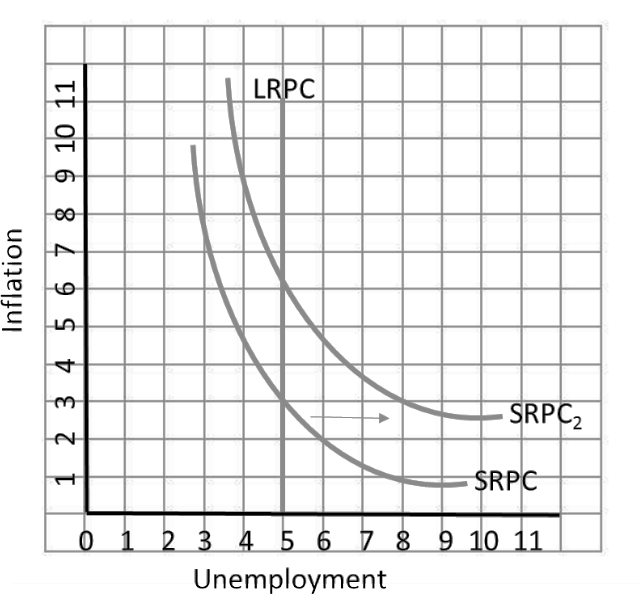
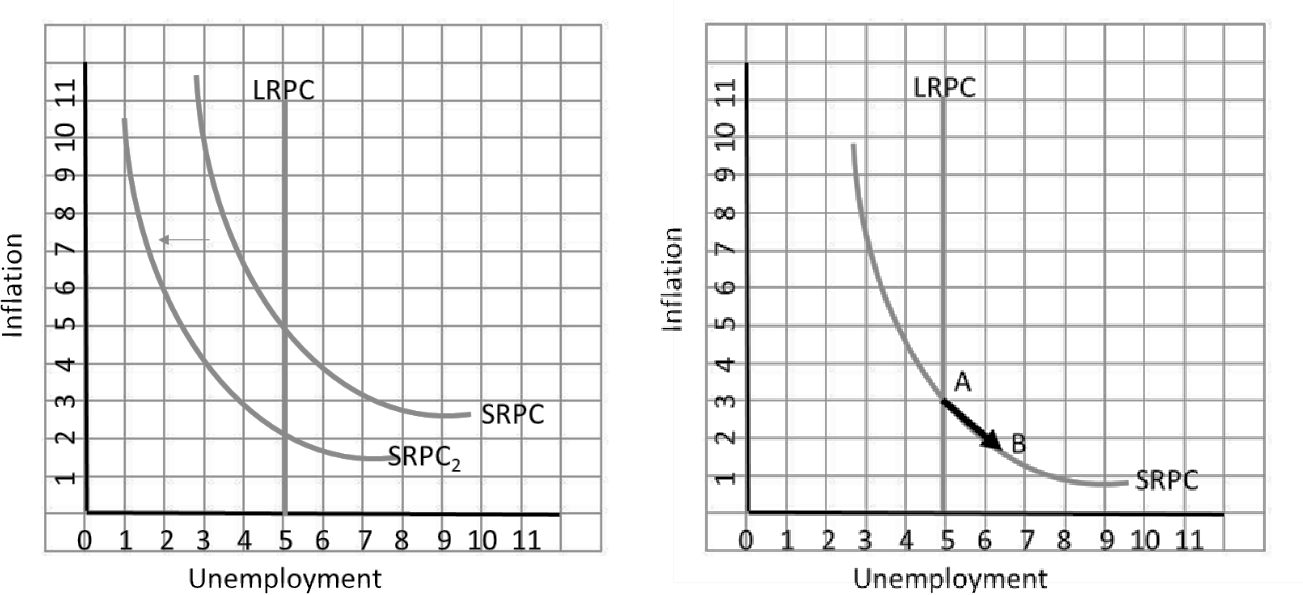
**Inflation expectations rise from 3% to 6%.**

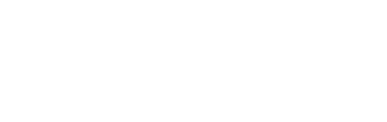
**SRAS shifts left, increasing inflation and unemployment**



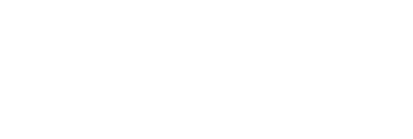
**The Fed increases interest rates with contractionary monetary policy.**

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





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

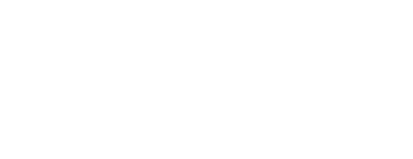


**The government increases income taxes.**

**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**