



[Frequently Asked Questions]

Phillips Curve

Subject:	Business Economics
Course:	B. A. (Hons.), 3 rd Semester, Undergraduate
Paper No. & Title:	Paper – 301 Macroeconomics - I
Unit No. & Title:	Unit – 4 Inflation, Unemployment and the Phillips Curve
Lecture No. & Title:	Lecture – 2 Phillips Curve

Frequently Asked Questions

Q1. What is Inflation?

A1. Inflation is a galloping rise in prices as a result of the excessive increase in the quantity of money.

Q2. Define Unemployment.

A2. The situation which represents the unused labour force within an economy is known as unemployment.

Q3. Explain in brief the relation between long run and short run Phillips curve.

A3. The long run Phillips curve is always a vertical straight line, while short run Phillips curve is influenced by change in inflation rate. Hence short run Phillips curve intersects the long run Phillips curve at a point.

Q4. State the relationship between rate of unemployment and rate of inflation.

A4. The rate of unemployment and rate of inflation are inversely proportionate as explained by the economists with the help of Phillips curve. Higher the unemployment rate lower is the inflation rate or vice-versa.

Q5. What is Phillips curve?

A5. The Phillips curve is the curve that shows the empirically fitted relationship between the rate of change of price level (Inflation) and the rate of unemployment.

Q6. What causes the long run Phillips curve?

A6. According to the economist the economy does not stay stable in long run, hence there is always a trade-off between inflation rate and unemployment rate. This trade-off causes the long run Phillips curve, which is represented by a vertical straight line.

Q7. What is Natural Unemployment?

A7. The natural rate of unemployment is the rate at which in the labour market the current no. of unemployed is equal to the no. of jobs available.

Q8. Why Natural Unemployment Persists in the economy?

A8. Hundred percent full employment is unattainable in a market economy over the long run. Such employment is actually undesirable, because a 0% long-run unemployment rate requires a completely inflexible labour market, where labourers are unable to simply quit their current job or leave to find a better one.

Q9. What is 'Unemployment Rate'?

A9. Unemployment rate is defined most basically as the percentage of the total labour force that is unemployed but actively seeking employment and willing to work.

Q10. What is the logic behind Phillips curve?

A10. The Logic of the Phillips curve is the Phillips' discovery appears to be intuitive. When unemployment is high, many people are seeking jobs, so employers have no need to offer high wages. It's another way of saying that high levels of unemployment result in low levels of wage inflation.

