ECONOMICS

Resource

Phillips Curve resources
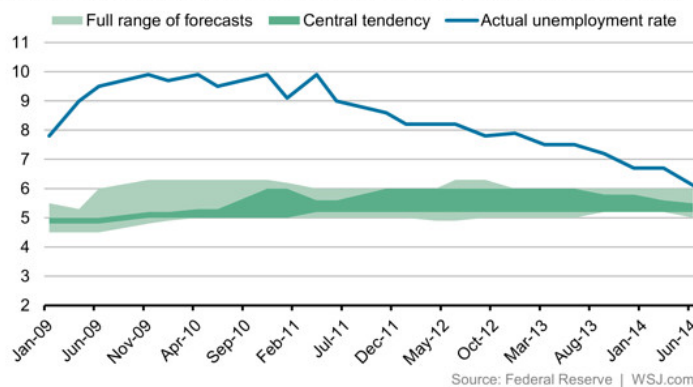
Resource 1

U.S. Jobless Rate Closing in on Nairu Estimate

Goals Within Sight
Federal Reserve policy makers' estimates of how low the unemployment rate can get before causing inflation. Central tendency excludes three highest and lowest forecasts.

Full range of forecasts — Central tendency — Actual unemployment rate

Source: Federal Reserve | WSJ.com

The U.S. unemployment rate is getting closer to the Federal Reserve's estimate of the non-accelerating inflation rate of unemployment, or Nairu–a rate that is happily low, but not so low that the economy and job market risk overheating and causing inflation. It is impossible to know exactly where this theoretical jobless rate stands, and it could change over time, depending on trends in worker productivity and other measures of labor-market slack. Fed officials estimate it to help guide their interest-rate-policy decisions. Many Fed officials put it in the 5.2% to 5.5% range. Some think it might be as high as 6% or as low as 5%. The trick for the Fed is to help guide unemployment into this comfort zone with interest rate policies and keep it there. When the economy is soft, the Fed encourages borrowing and spending with low rates, and when it is too strong, it does the reverse. At 6.1% in June, the jobless rate was getting closer to where some officials put Nairu. Its quick approach to this level helps explain why some regional Fed bank presidents are talking about interest rate increases. Fed Chairwoman **Janet Yellen**, who testifies before Congress on Tuesday and Wednesday on the economic outlook, has argued that hidden forms of labor-market slack, such as people taking part-time jobs when they want full-time jobs, gives the Fed extra room to manoeuvre.

What is the difference between the actual rate of u/e and the NAIRU. Why are they different?
Why might 'trends in worker productivity affect the NAIRU?
Why is the trick 'to guide u/e into this comfort zone'?
How do interest rates help to do this?
Why might 'its quick approach to this level' lead to talk of interest rate rises?
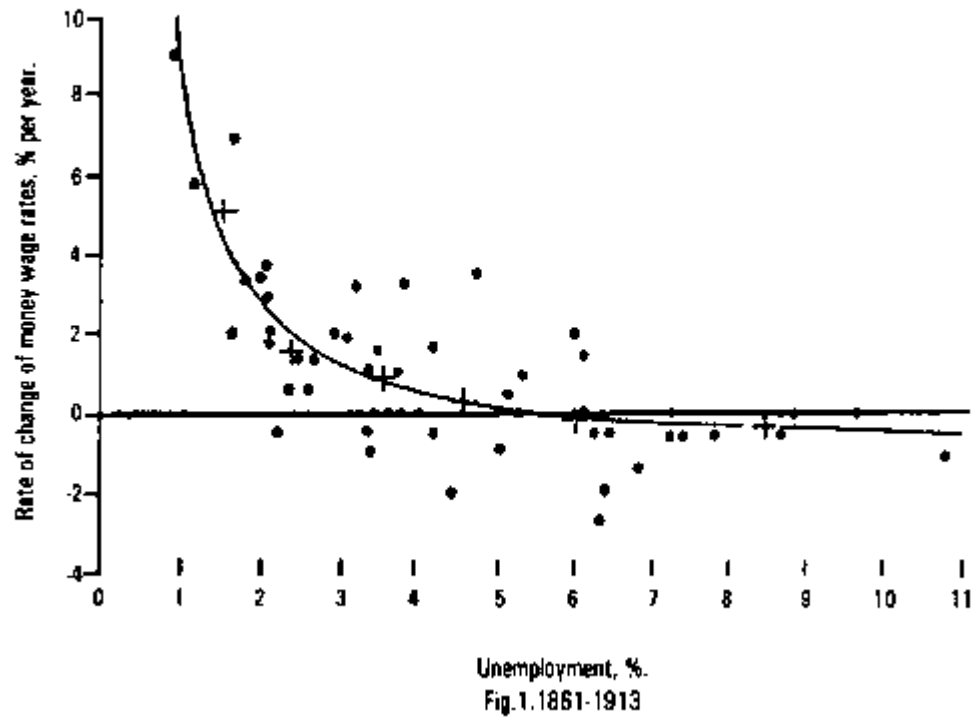Why is Janet Yellen not so worried? What does this suggest about the NAIRU?
How can we reduce the NAIRU in theory?
Why might this be difficult in practice?

http://blogs.wsj.com/economics/2014/07/15/u-s-jobless-rate-closing-in-on-nairu-estimate/

Resource 2

Chart 3: The Original "Phillips Curve"[25]
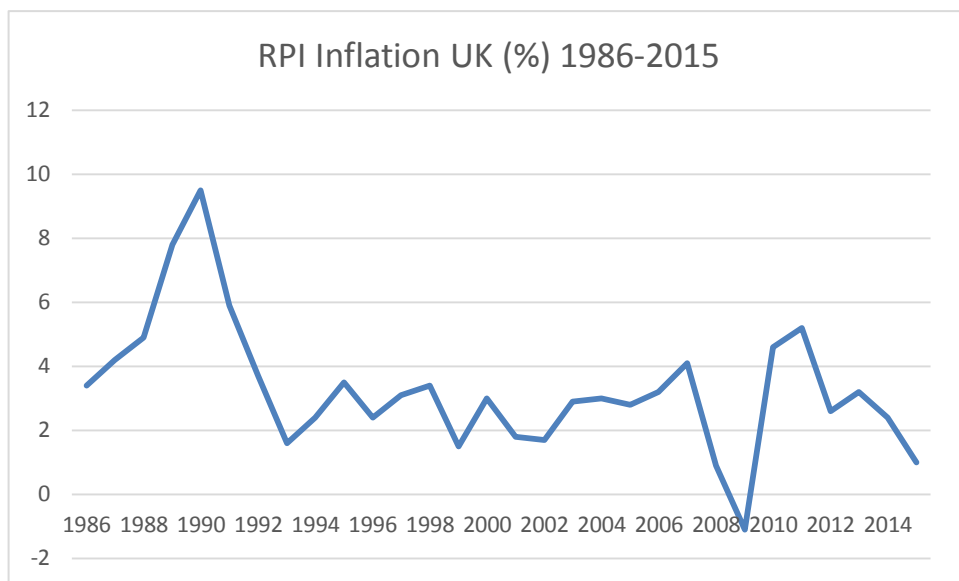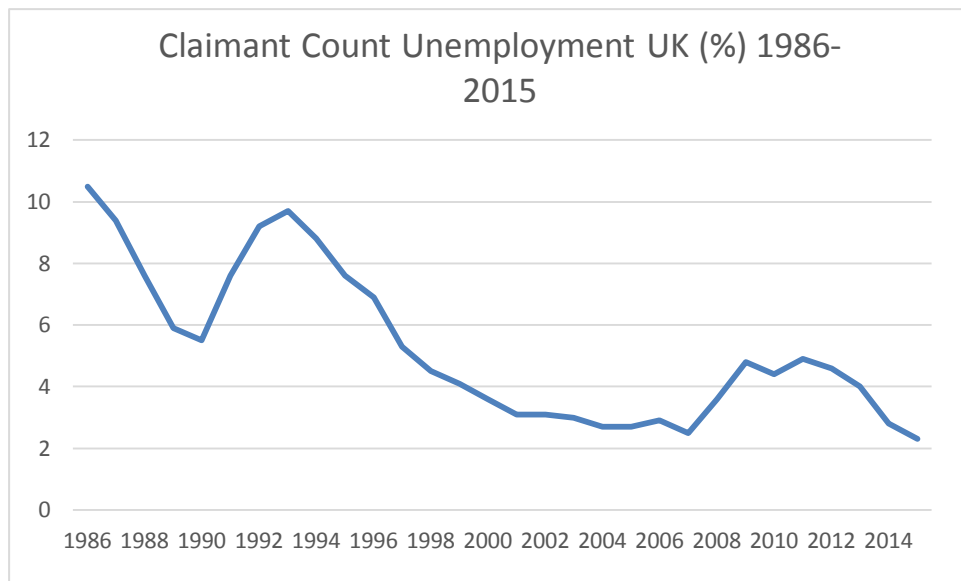

Unemployment, %.
Fig.1.1861-1913

What does this tell you?
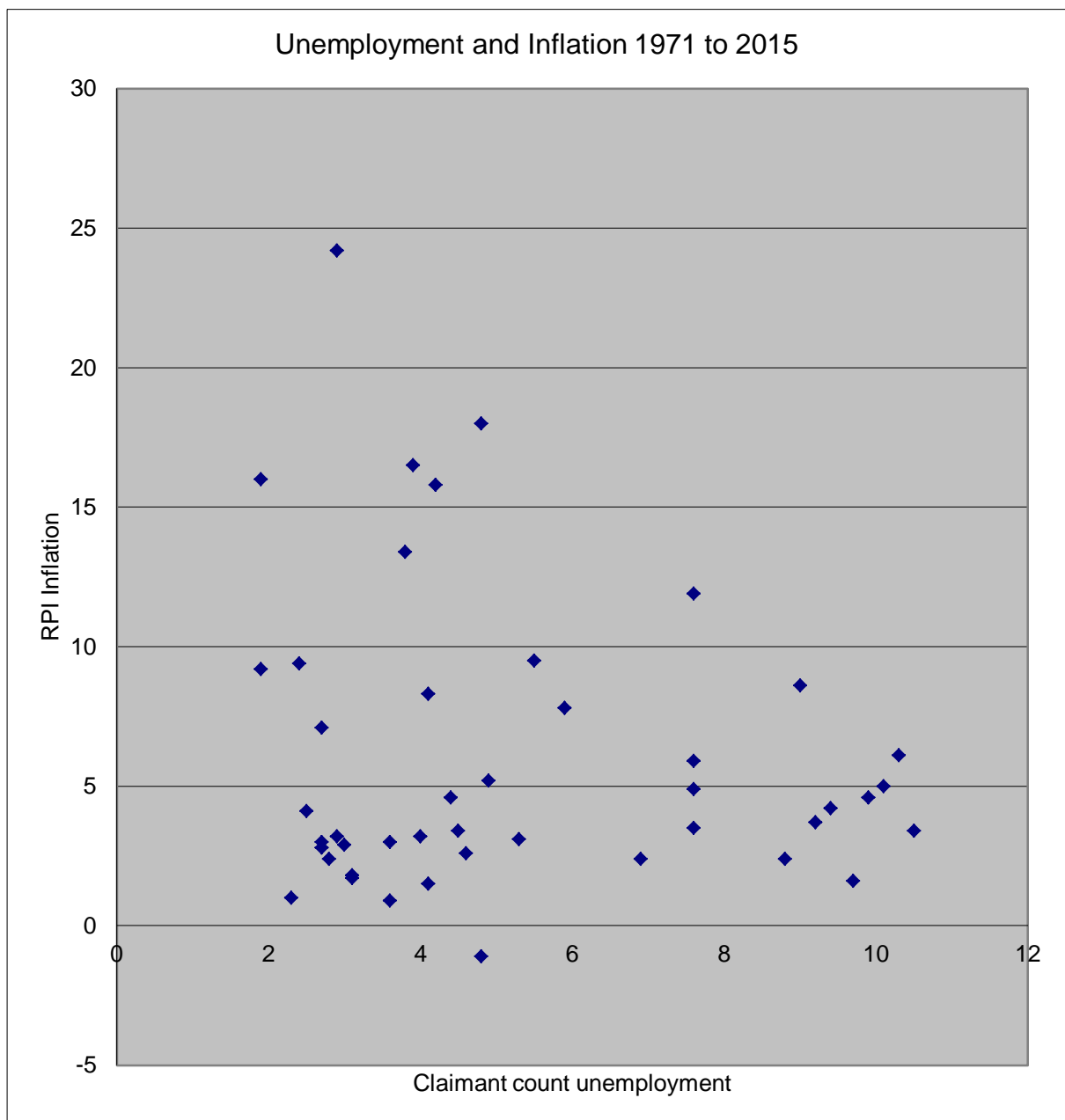
Explain what is happening using economics.
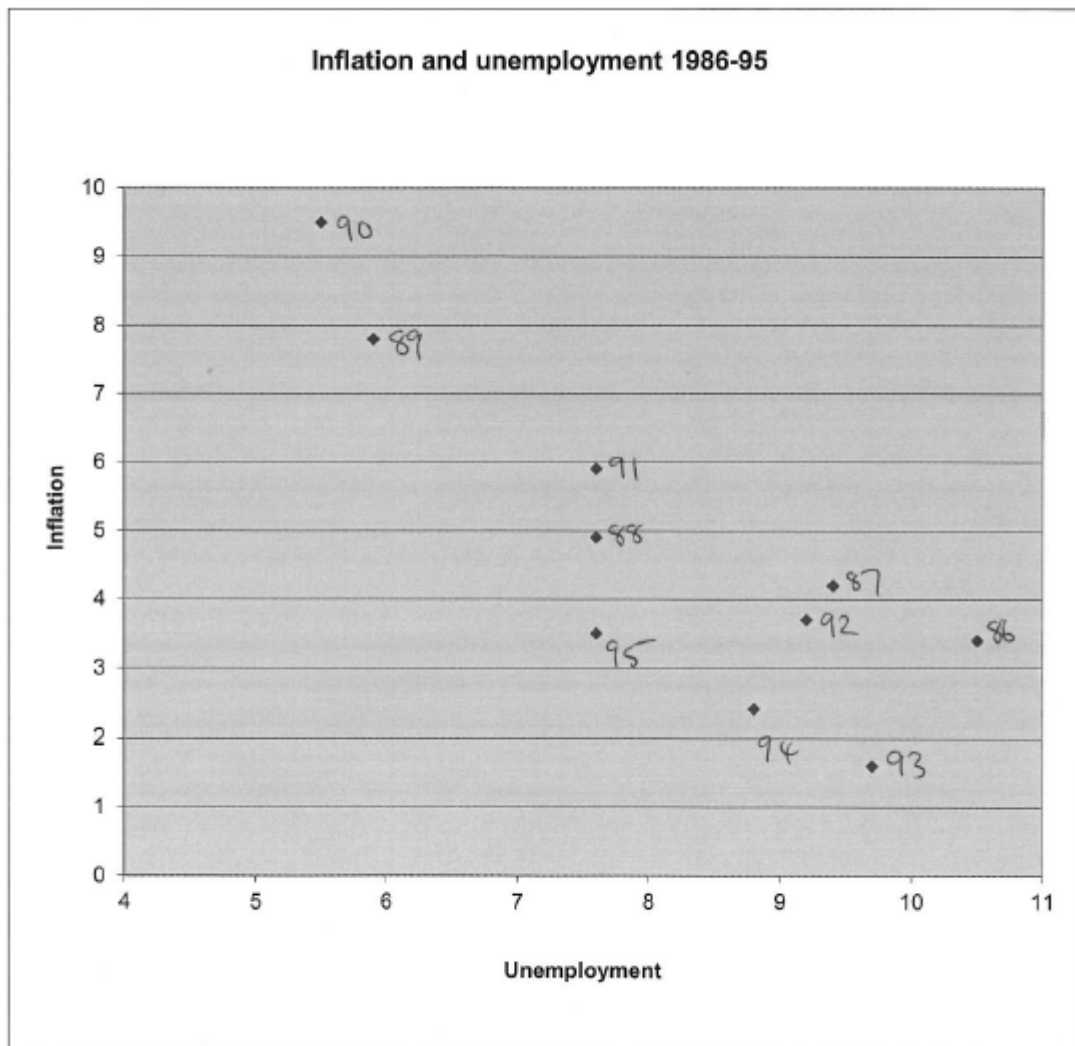
How strong is the relationship?

Resource 3

Claimant Count Unemployment UK (%) 1986-2015
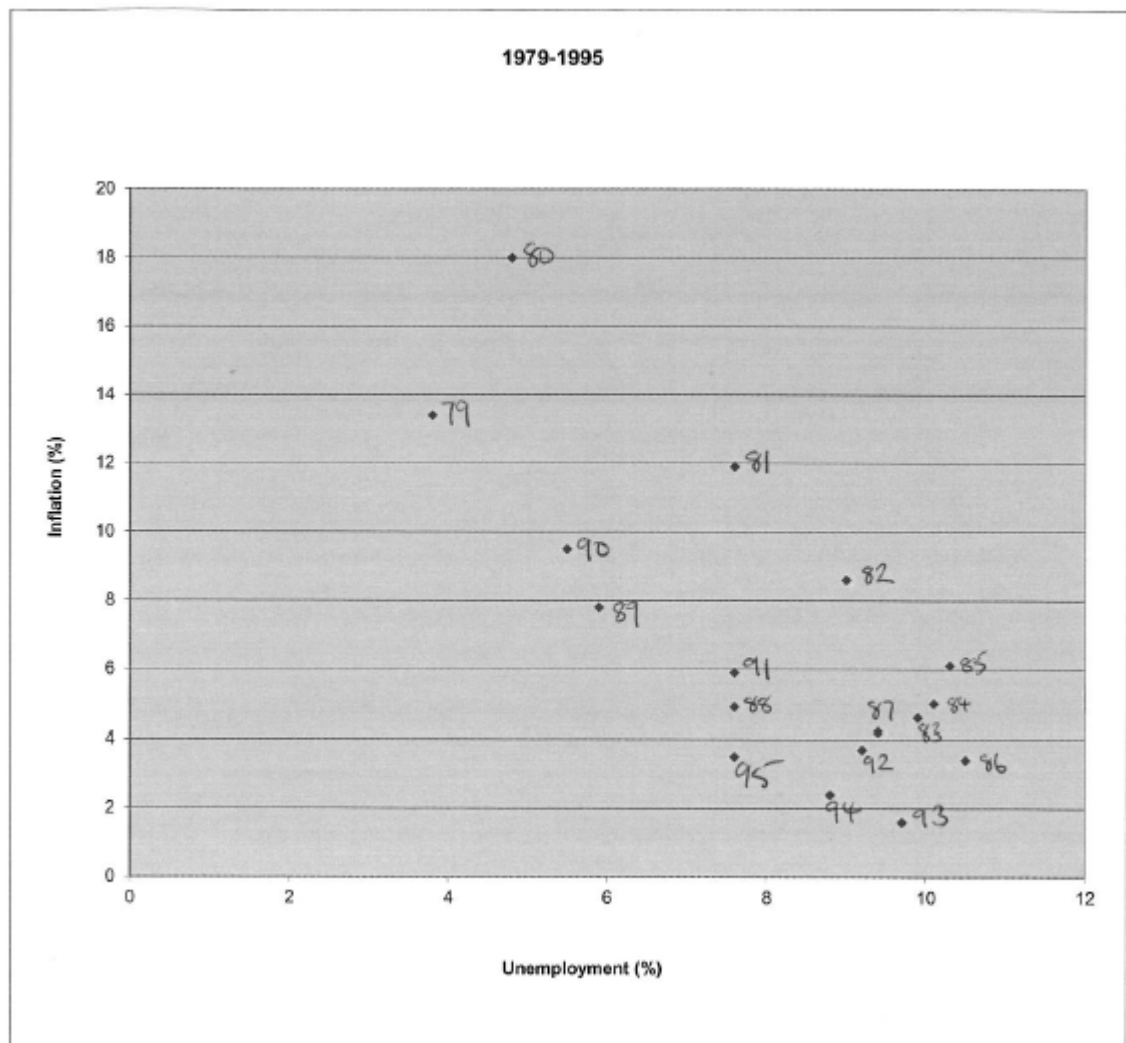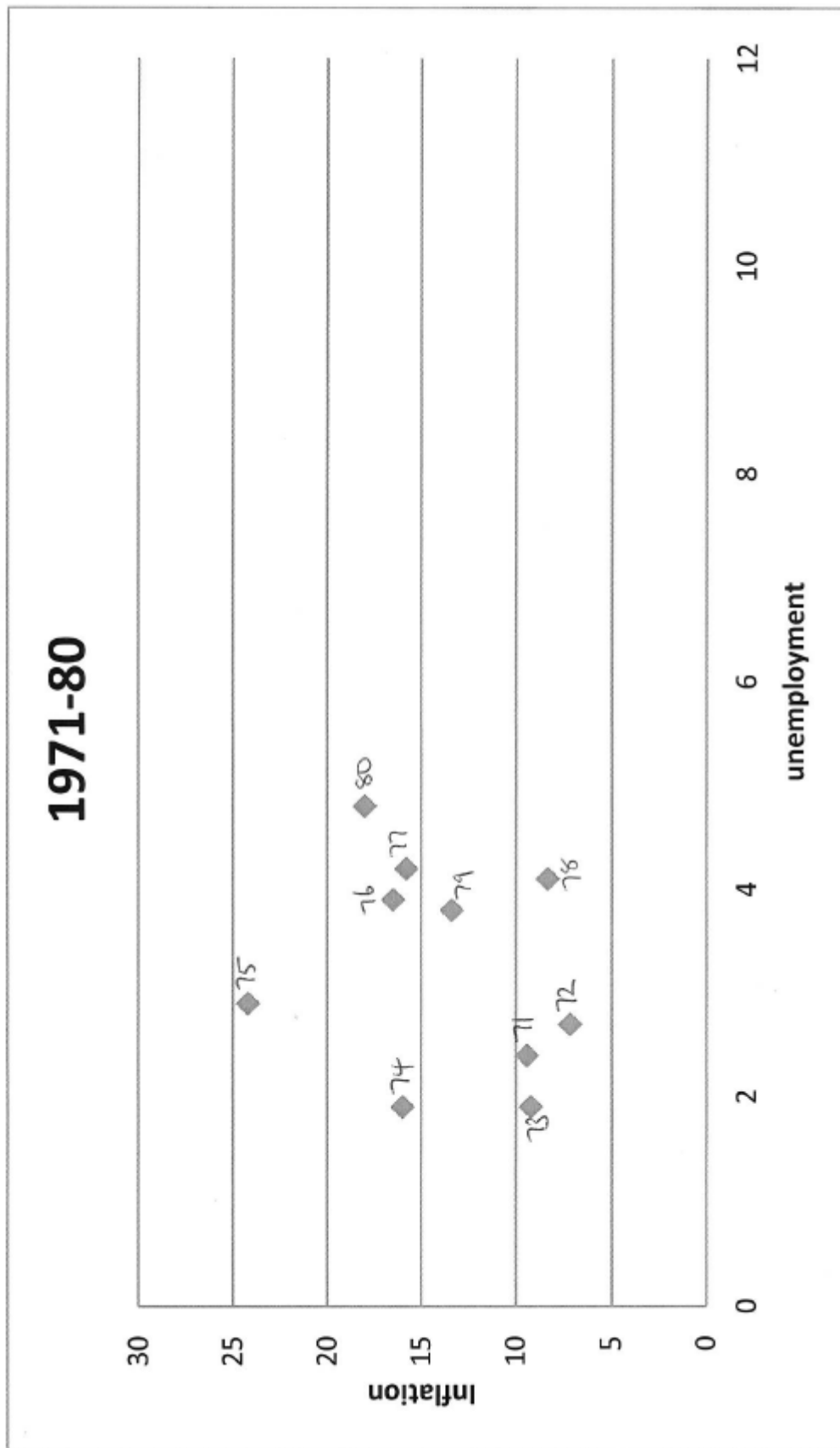

RPI Inflation UK (%) 1986-2015

Resource 4

Unemployment and Inflation 1971 to 2015

Resource 5

Inflation and unemployment 1986-95

Resource 6

1979-1995

Resource 7

1971-80

Resource 8

Inflation and unemployment 1995-2006

Resource 9

UK NAIRU
Unemployment rate with non-accelerating inflation rate

Actual Unemployment (LFS Measure)

Estimated UK NAIRU

- NAIRU - Unemployment rate with non-accelerating inflation rate
- Unemployment, Rate, All aged 16 and over, ILO, SA
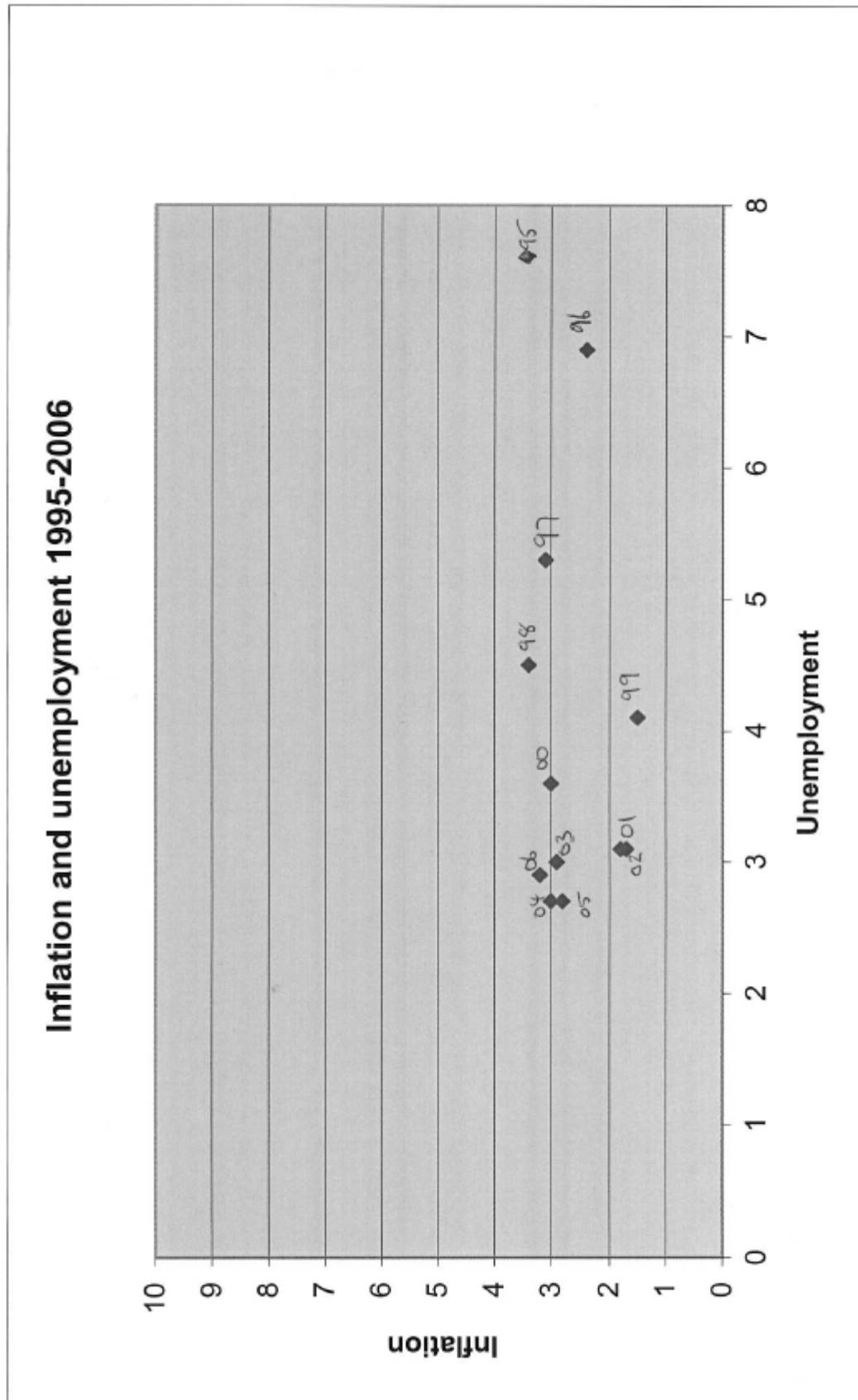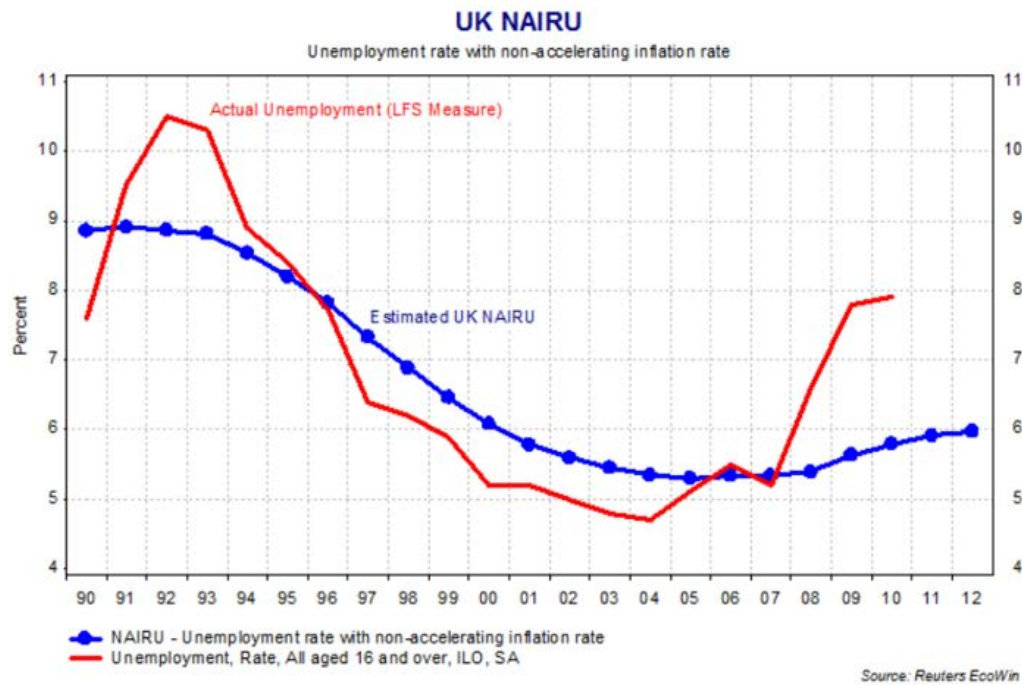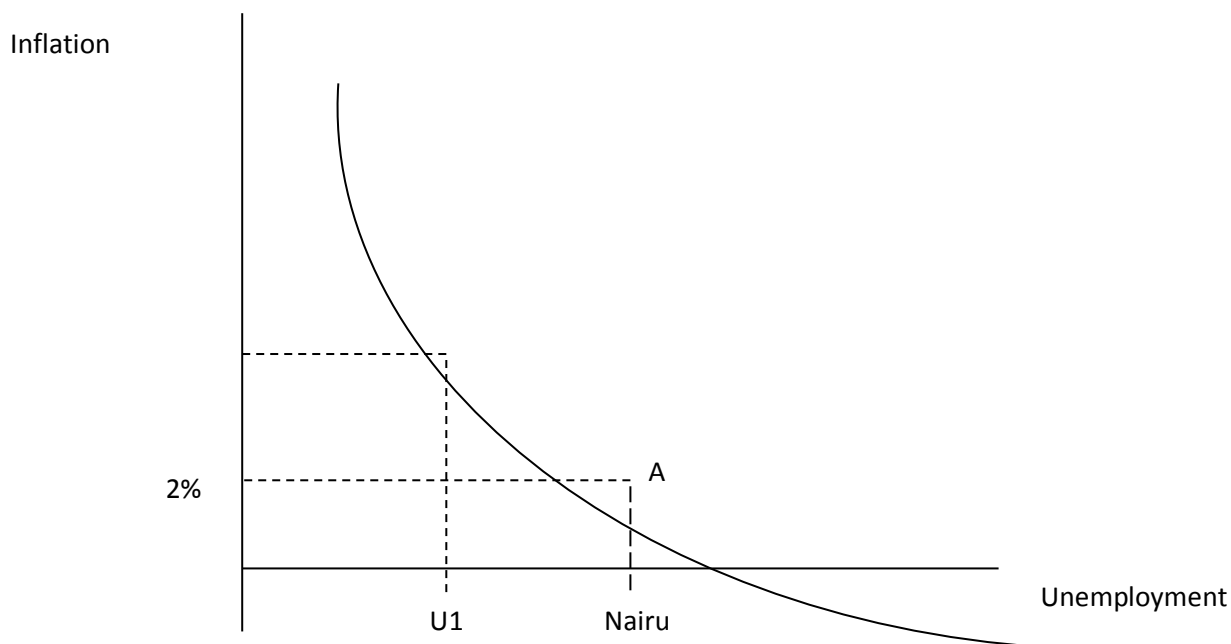
Source: Reuters EcoWin

Resource 10

Imagine that the economy is initially at the NAIRU with inflation of 2%. Suppose that the government decides to increase AD by (say) printing money. Unemployment falls to U1. Workers are now much stronger and can demand a real wage increase of (suppose) 3%.

What actual wage increase will they ask for?

What will inflation be at U1 (assume for simplicity that labour is a high percentage of firms' costs)?

Mark it on the graph.

If the government does nothing else, then in the neoclassical view the economy should self-stabilise, because unemployment is below the NAIRU. Explain how and relate what happens to the Phillips curve.

Resource 11

Inflation

2%

U1   Nairu

Unemployment
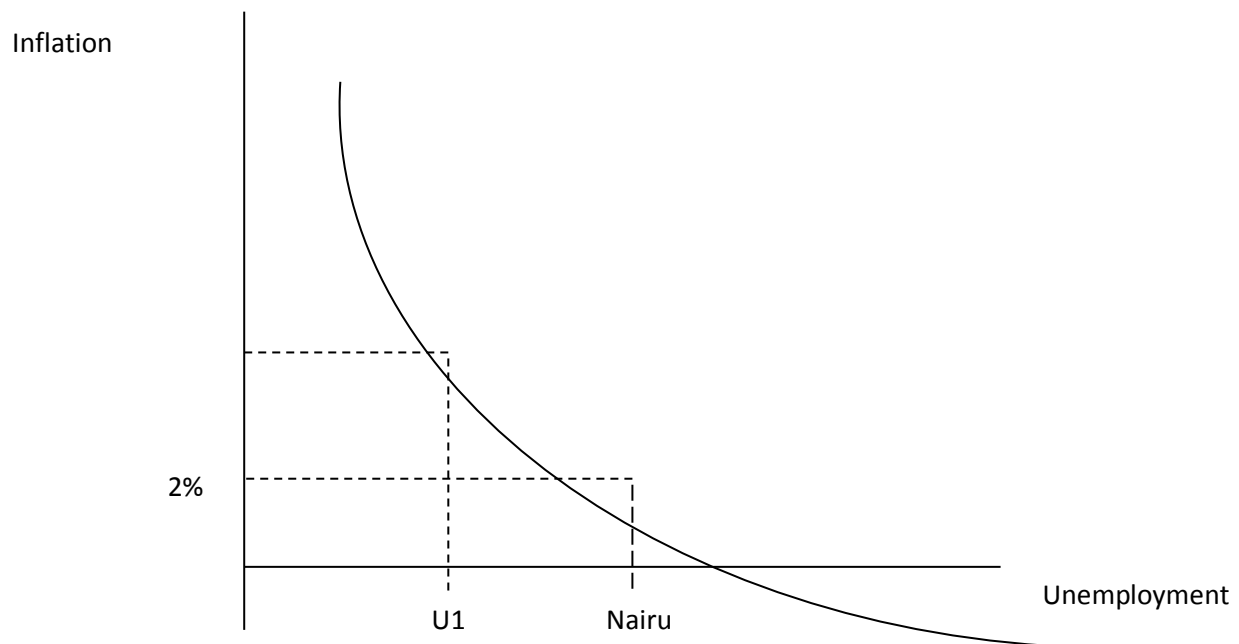
Suppose instead that the government does not want the economy to return to the NAIRU and prints more money. Workers now realise that inflation is 5% (previously they suffered from 'money illusion') and that they haven't actually had a real pay increase.
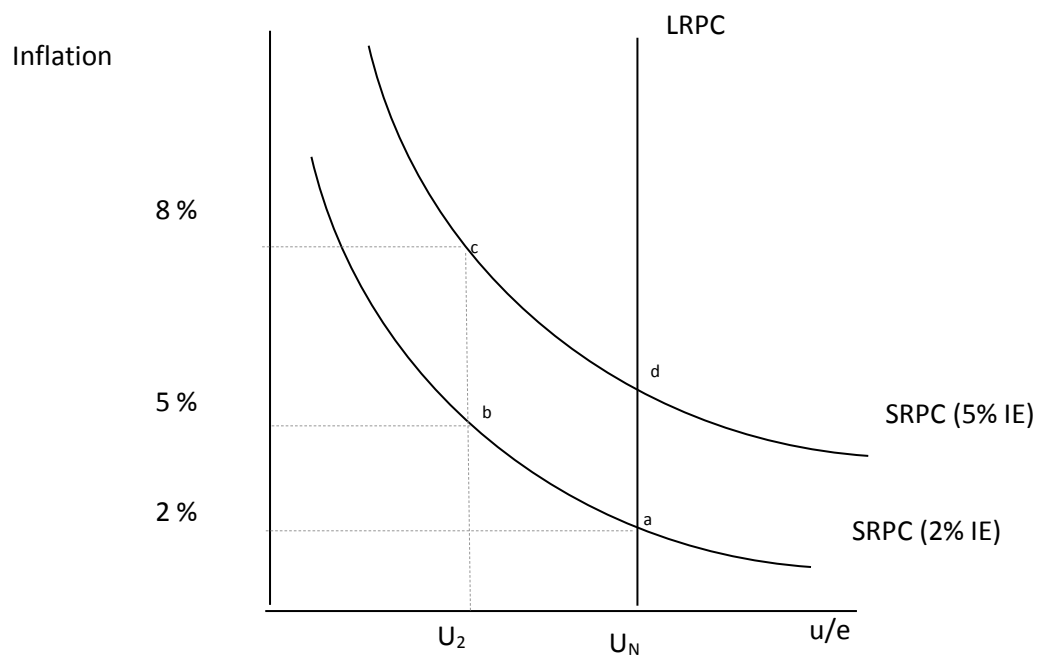
Why haven't they had a real pay increase?

Given that unemployment is low and they still want a real 3% pay rise, what will they do now? Why?

What happens in the diagram?

If the government now continues policy as it is (no further injections of demand into the system) what happens now?

Resource 12

Resource 13

Inflation

LRPC$_2$ LRPC$_1$

2 %   b   a   SRPC (2%)

U$_{N2}$ U$_{N1}$

SRPC (2%)