

3.5: SUMMARY

- Economies have a natural rate of unemployment- see webnote 316. (task 1)
- How to tackle this rate of unemployment is the issue that divides economists
Demand side or supply side policies?
- Is there a trade off between inflation and unemployment? (task 2) The short run Phillips curve suggests 'YES'-until 1966!
- The Phillips curve appeared to show the impossibility of achieving 2 key government policy objectives simultaneously i.e. policy conflict see webnote 409
- Phillips curve works only in short run and will be vertical in long run as shown in diagram B i.e no trade off (task 3)
- How do you show stagflation? See diagram C. (task 4)



Diagram A: Short Run Philips Curve

- Philips Curve

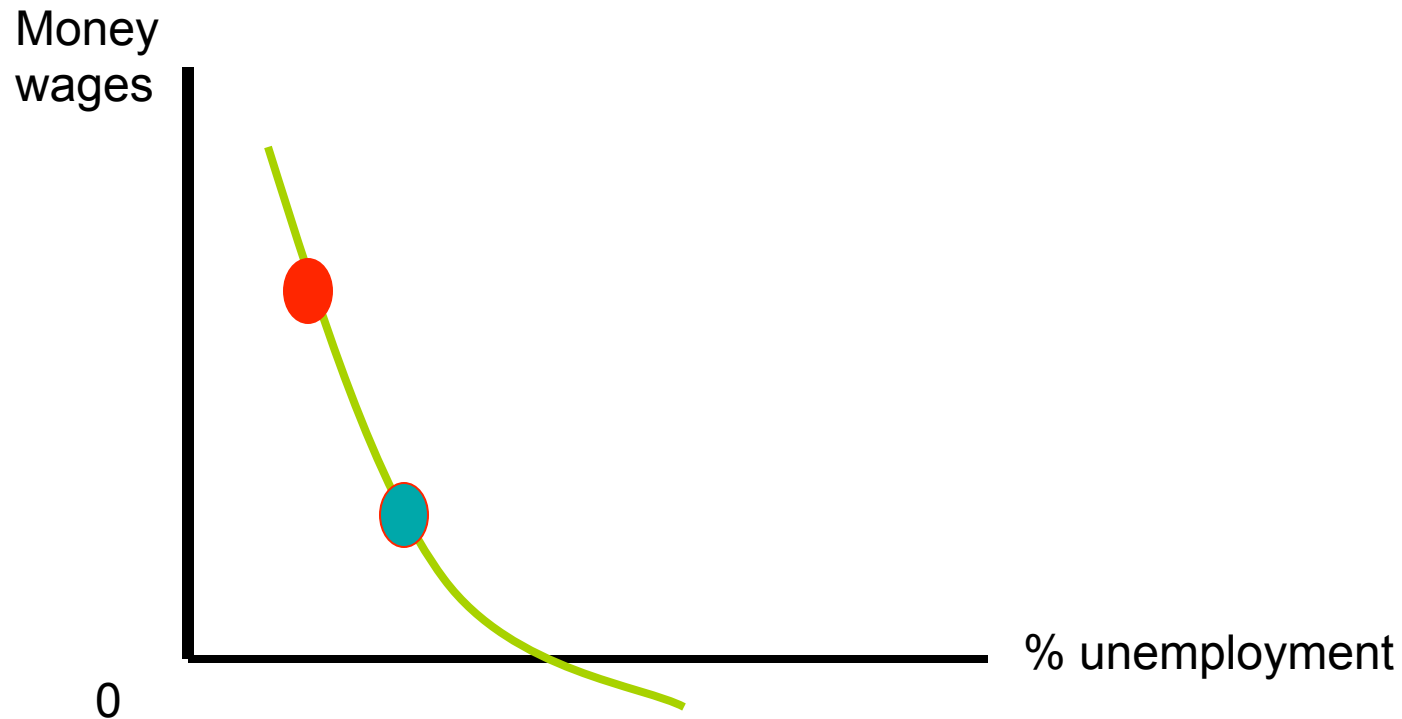
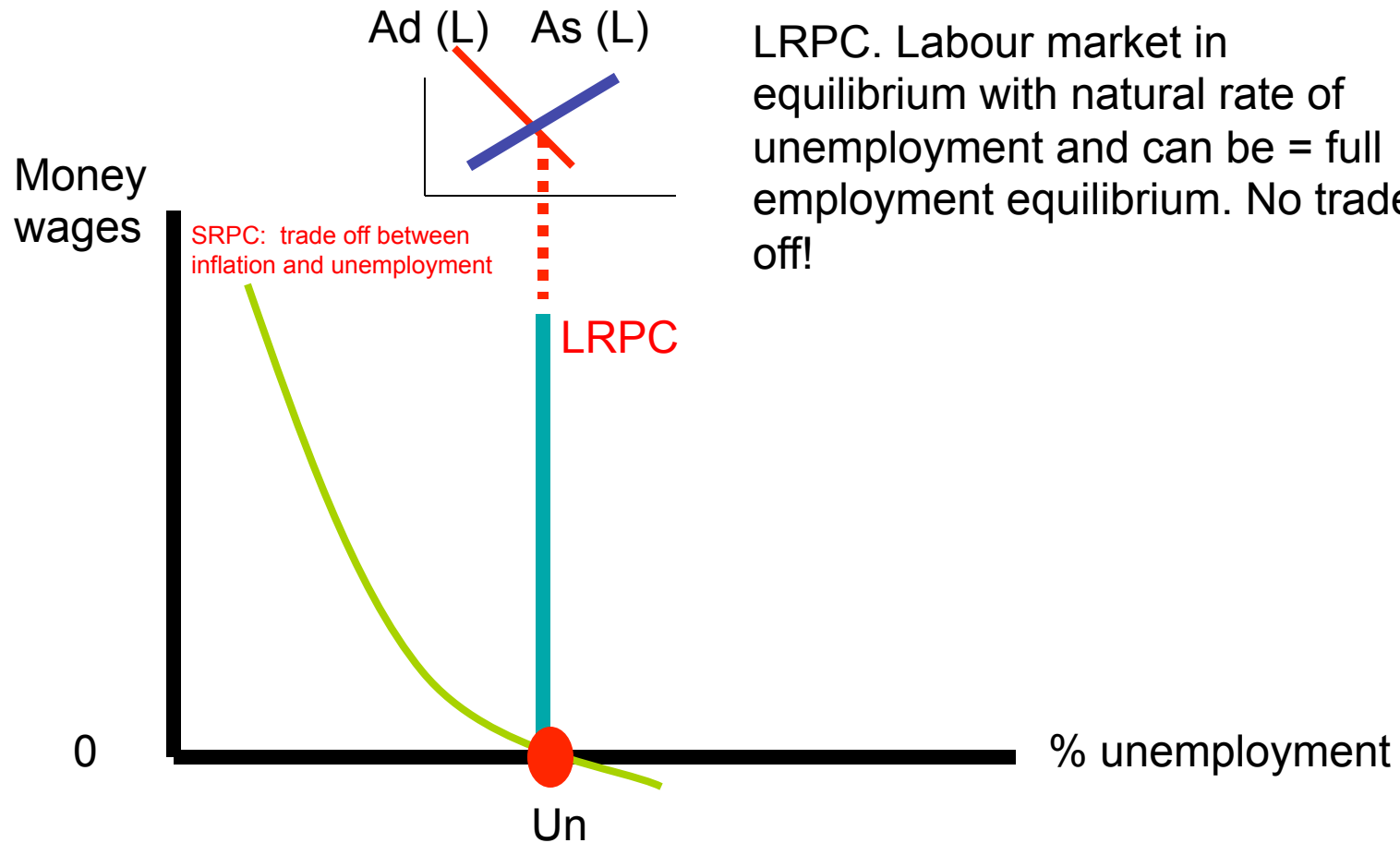


Diagram B: Short Run and Long Run Philips Curve

- Philips Curve

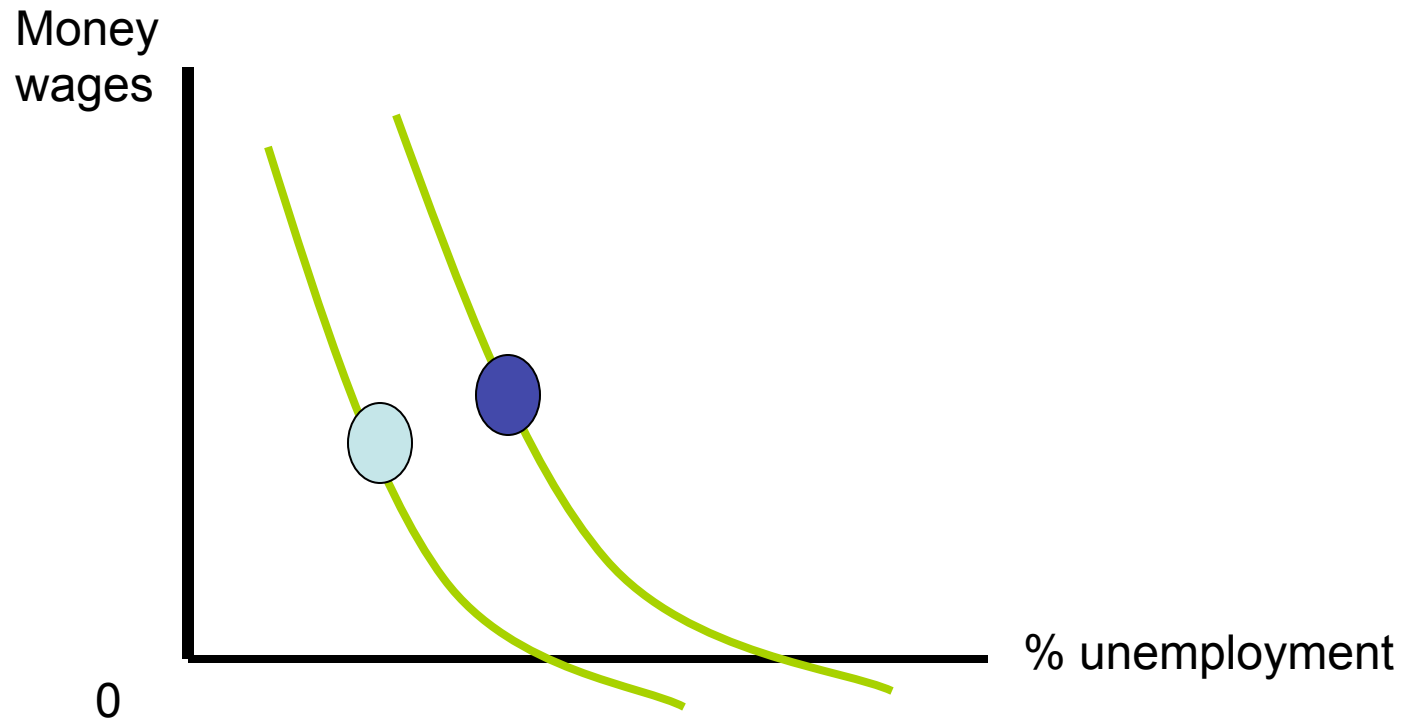


LRPC: No trade off!

LRPC. Labour market in equilibrium with natural rate of unemployment and can be = full employment equilibrium. No trade off!

Diagram C: Stagflation

- Philips Curve



Ib question 2010

- HL paper 1 2010-May
- **2a Explain why a country may wish to reduce its unemployment rate. 10/25**
- **2b Evaluate the likely effects on the economy of relying on demand-side policies to reduce the unemployment rate. 15/25 (task 5)**



Ib question 2010

- SL paper 2 2010-May
- 3d Using information from the text/data and your knowledge of economics, evaluate whether demand-side policies or supply side policies should be used to reduce the current level of unemployment in Ireland. 8/20 marks (task 6)
- (note also posted on webnote 338)

