The Natural Rate of Unemployment and the Phillips Curve

**Figure 8 - 1**

*Inflation versus Unemployment in the United States, 1900 to 1960*

During the period 1900 to 1960 in the United States, a low unemployment rate was typically associated with a high inflation rate, and a high unemployment rate was typically associated with a low or negative inflation rate.

• The Phillips curve, based on the data above, shows a negative relation between inflation and unemployment.
Figure 8 - 2

Inflation versus Unemployment in the United States, 1948 to 1969

The steady decline in the U.S. unemployment rate throughout the 1960s was associated with a steady increase in the inflation rate.
8-2 The Phillips Curve

Mutations

Figure 8 - 3

Inflation versus Unemployment in the United States Since 1970

Beginning in 1970, the relation between the unemployment rate and the inflation rate disappeared in the United States.
U.S. Inflation since 1900

Since the 1960s, the U.S. inflation rate has been consistently positive. Inflation has also become more persistent: A high inflation rate this year is more likely to be followed by a high inflation rate next year.
8-2 The Phillips Curve

Mutations

Figure 8 - 5

Change in Inflation Versus Unemployment in the United States Since 1970

Since 1970, there has been a negative relation between the unemployment rate and the change in the inflation rate in the United States.

- The line that best fits the scatter of points for the period 1970-2006 is:
  \[ \pi_t - \pi_{t-1} = 4.4\% - 0.73u_t \]
Has the U.S. Natural Rate of Unemployment Fallen since the Early 1990s and, If So, Why?

Figure 1  Change in Inflation versus Unemployment in the United States since 1997