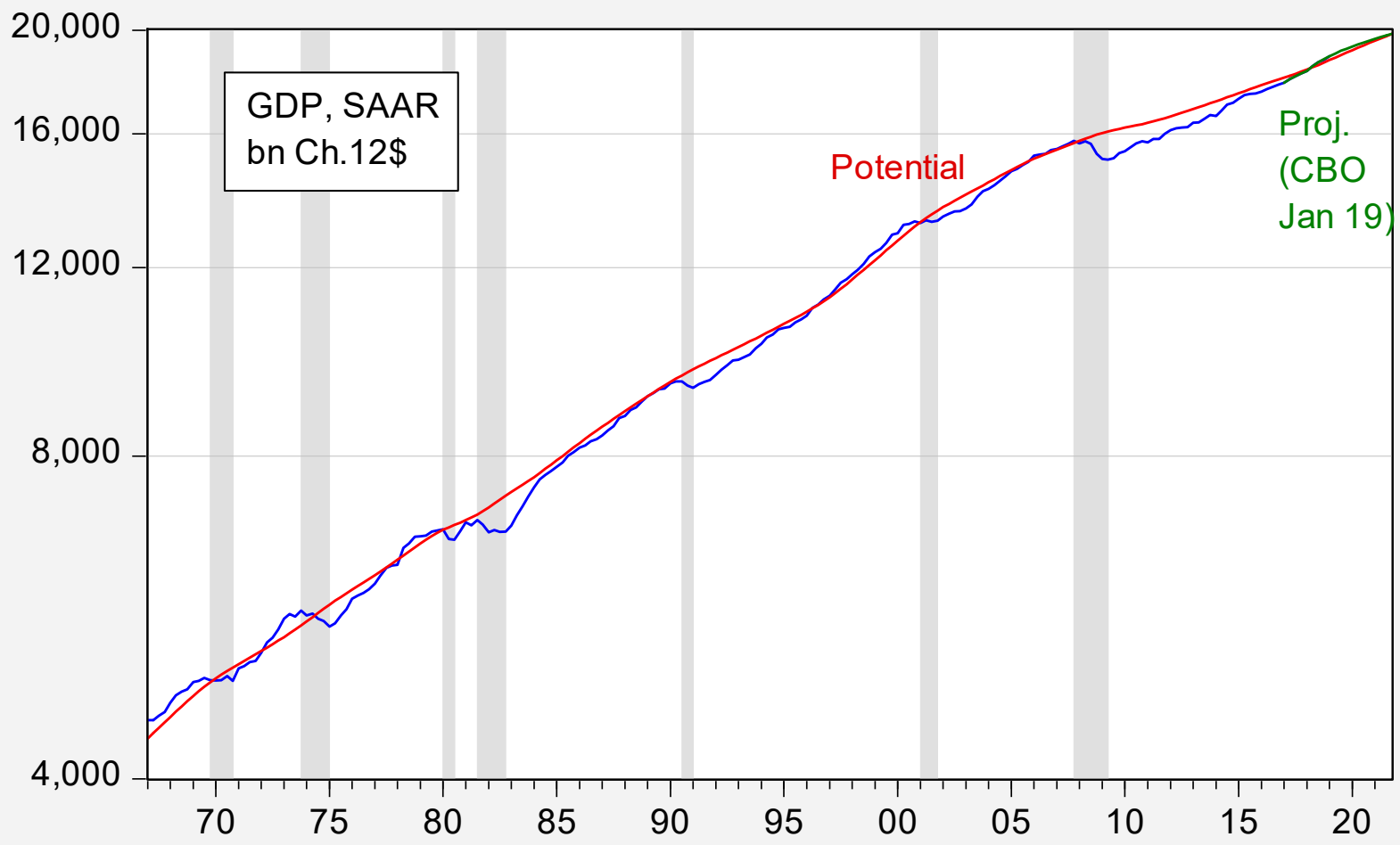


Economics 442
Macroeconomic Policy
(Spring 2019)
5/1/2019

Instructor: Prof. Menzie Chinn
UW Madison



GDP, SAAR
bn Ch.12\$

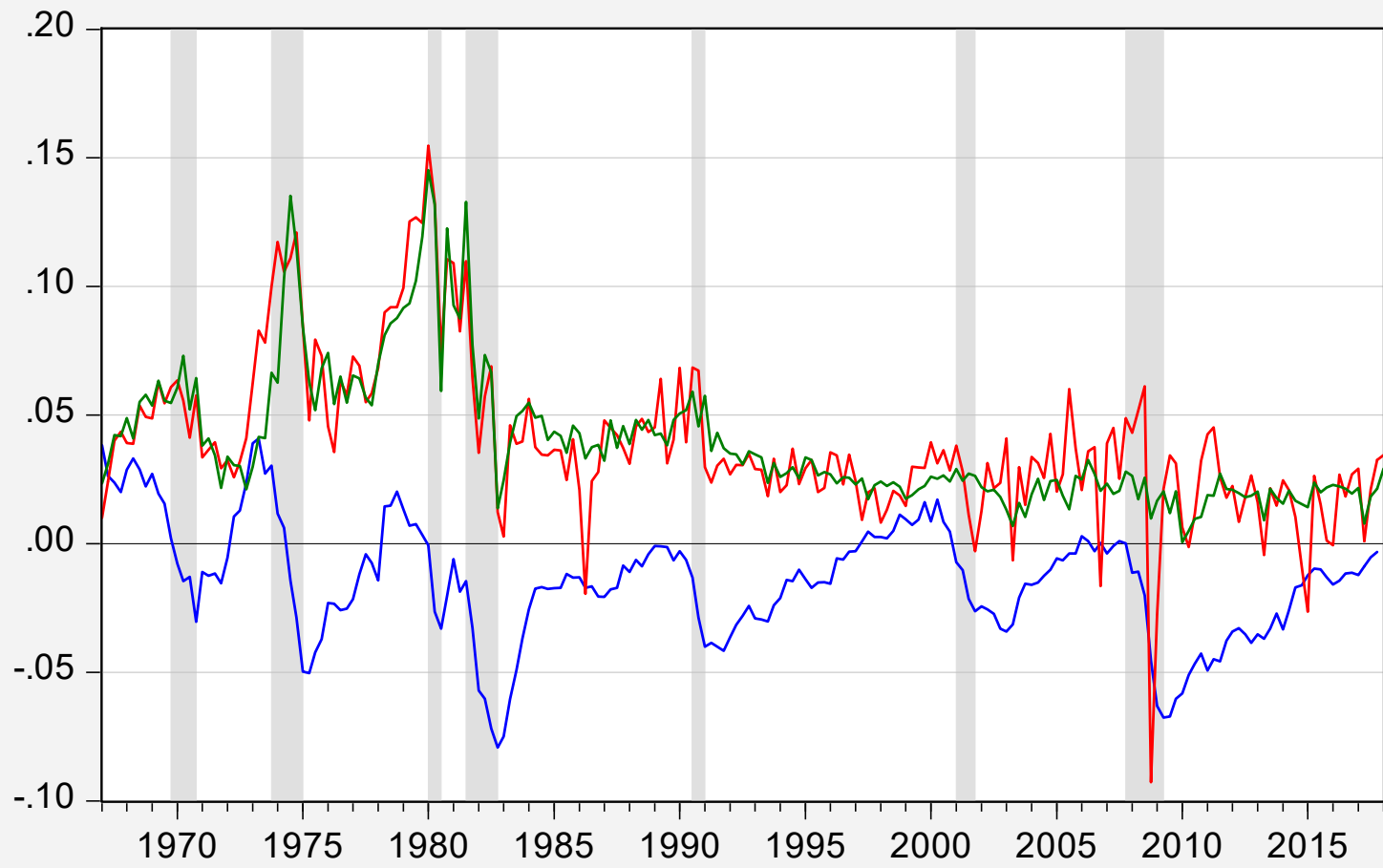
Potential

Proj.
(CBO
Jan 19)

The Phillips Curve

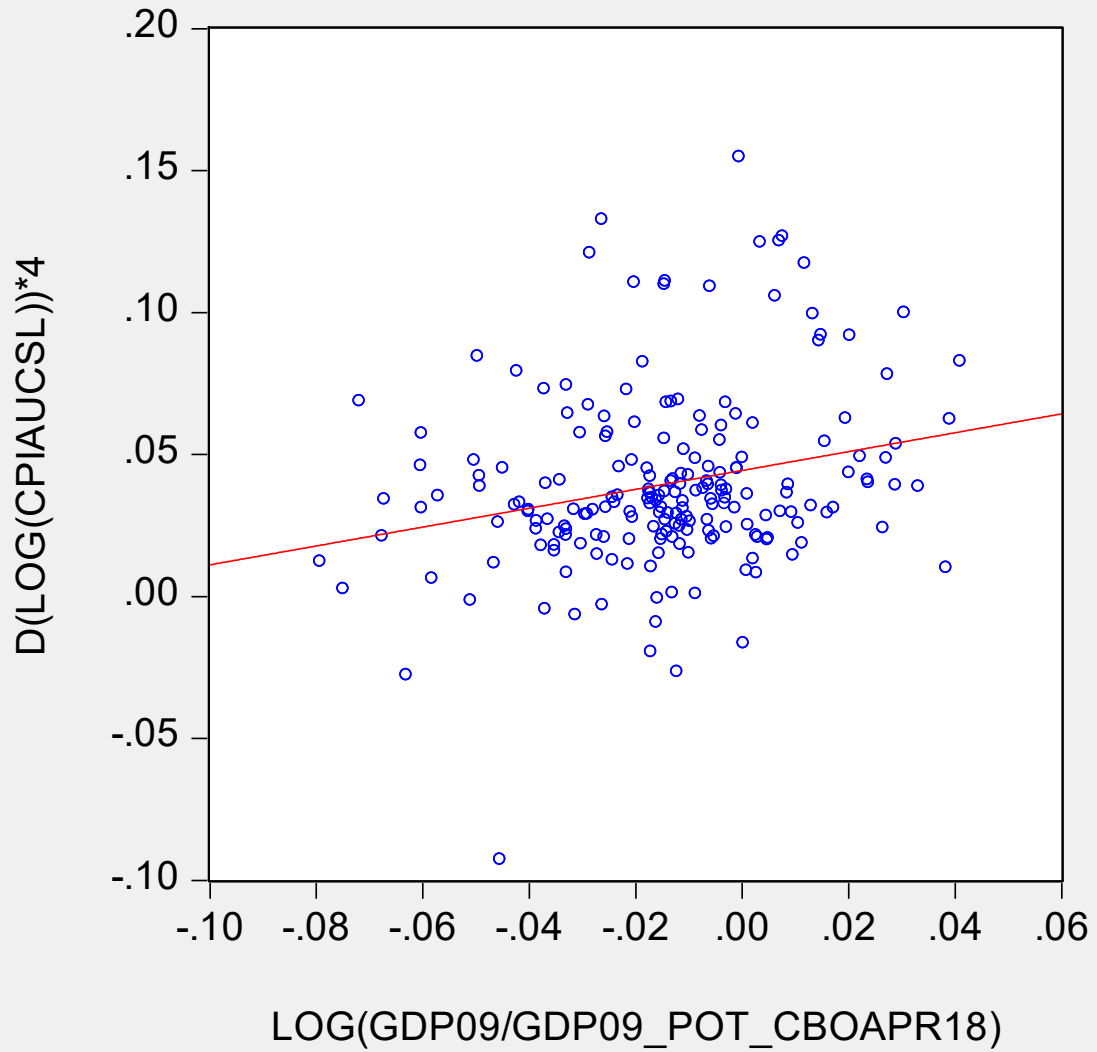
$$\pi = \pi^e + f(y - y_n)$$

Let's use survey data for expected inflation (instead of using lagged inflation)

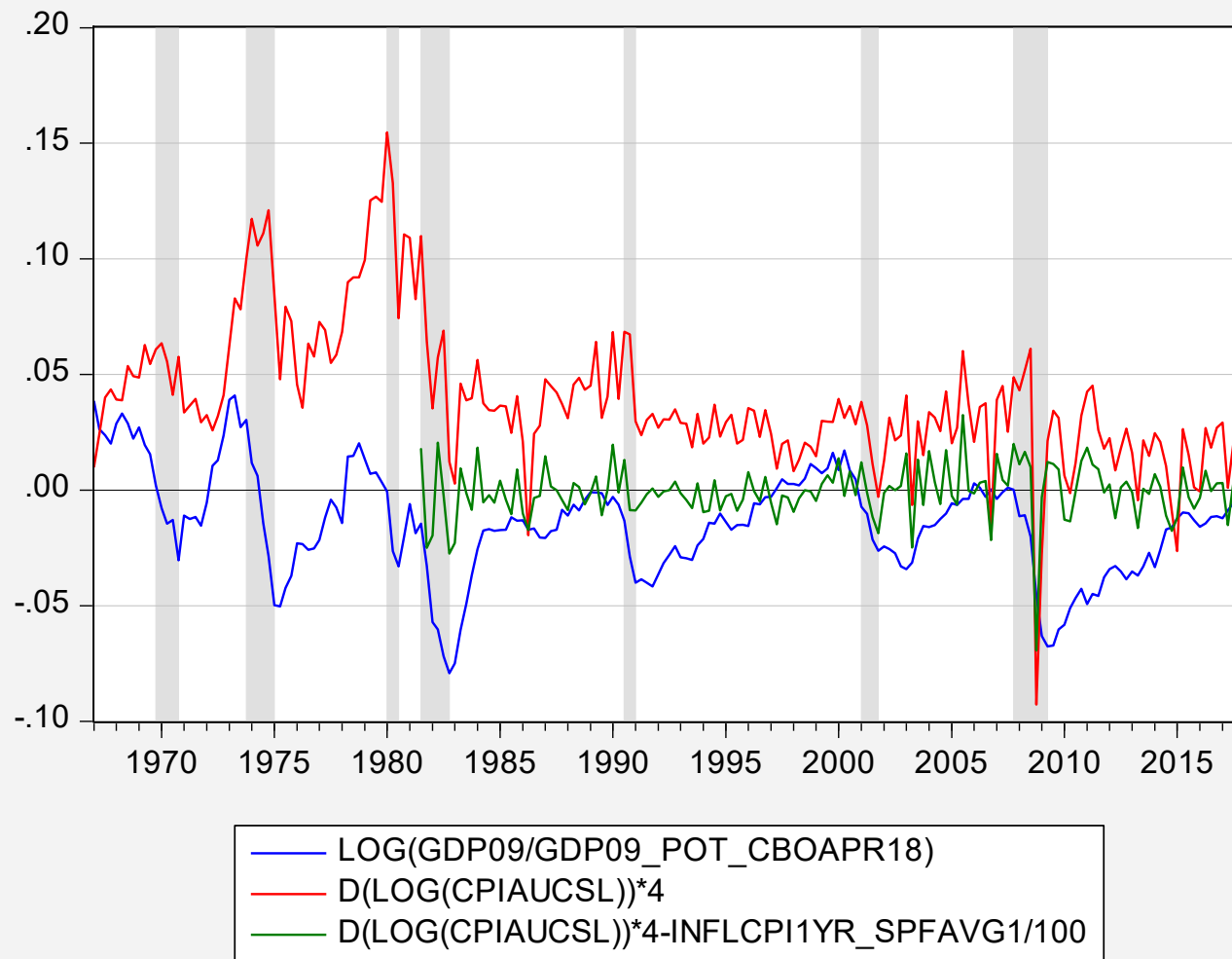


— LOG(GDP09/GDP09_POT_CBOAPR18)
— D(LOG(CPIAUCSL))*4
— D(LOG(CPILFESL))*4

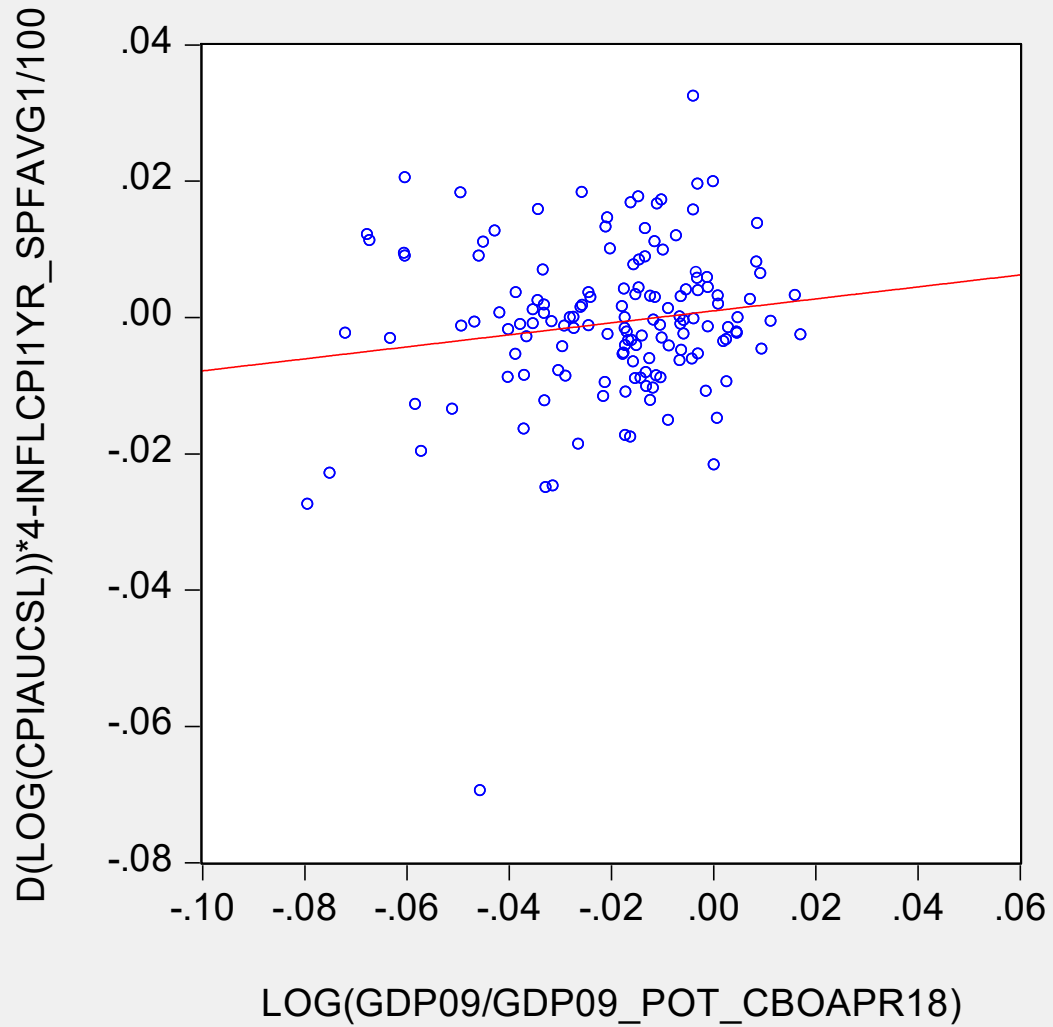
1967Q1-2017Q4



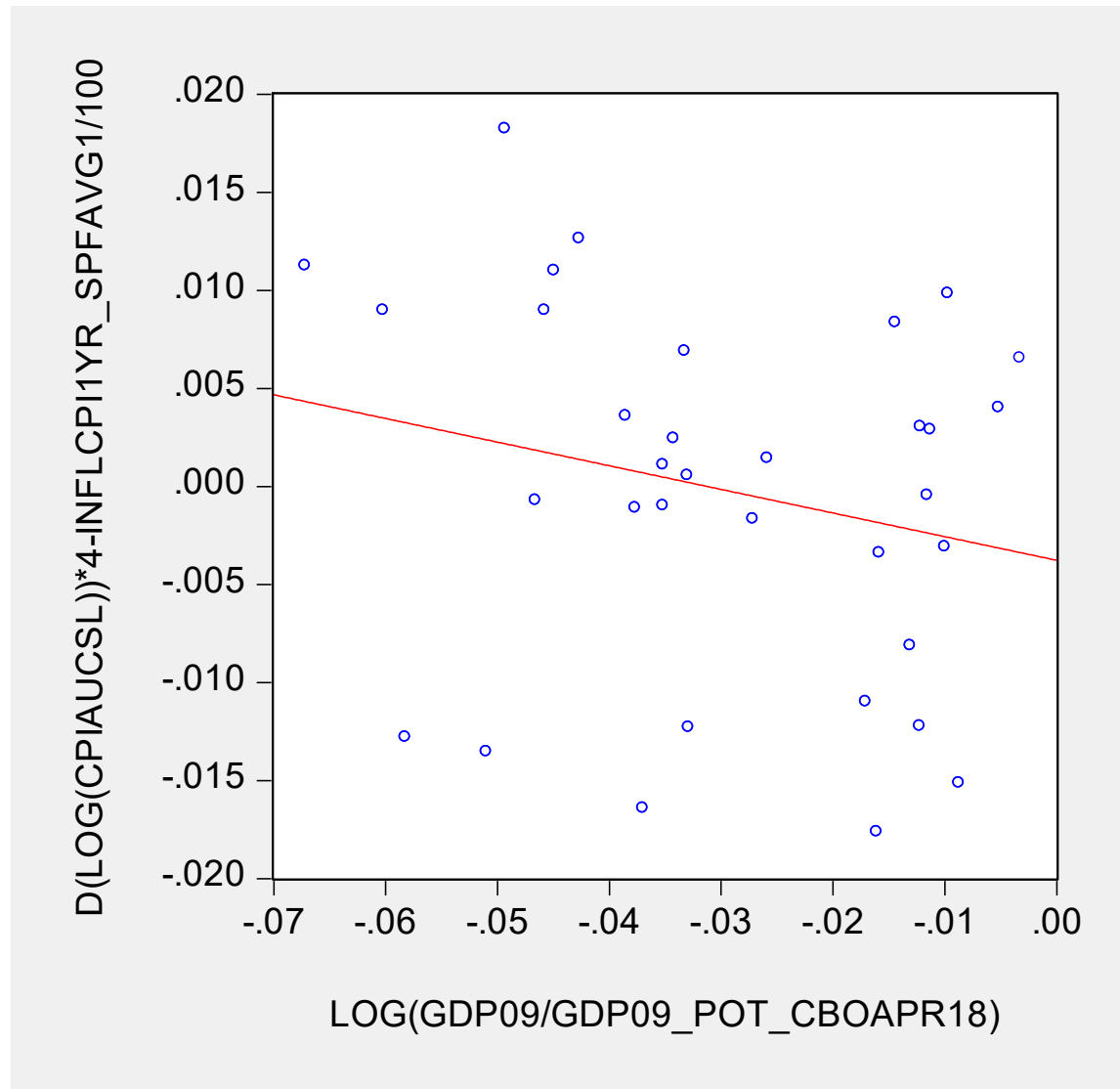
Expected Augmented Phillips Curve



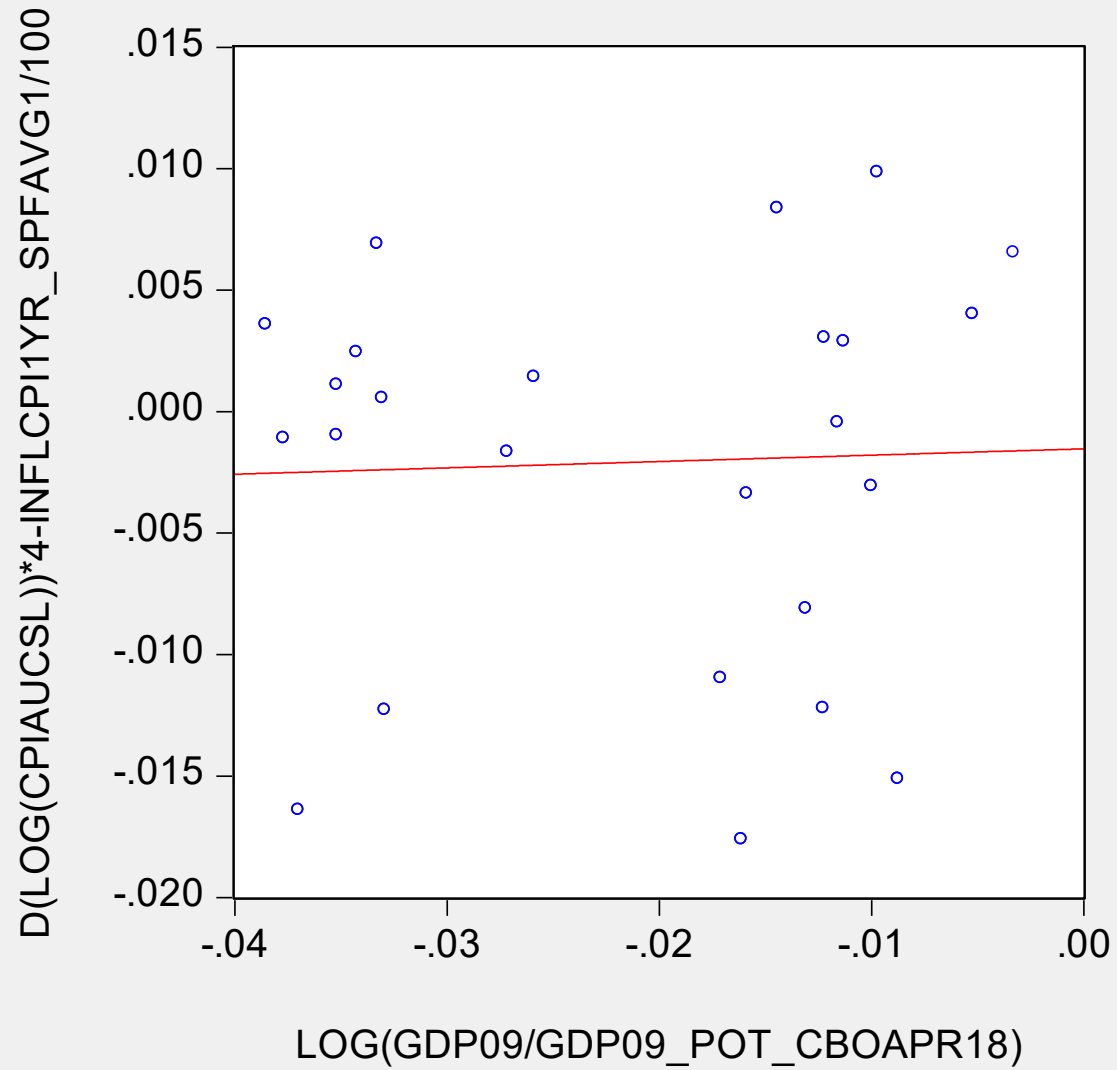
1985Q3-2017Q4



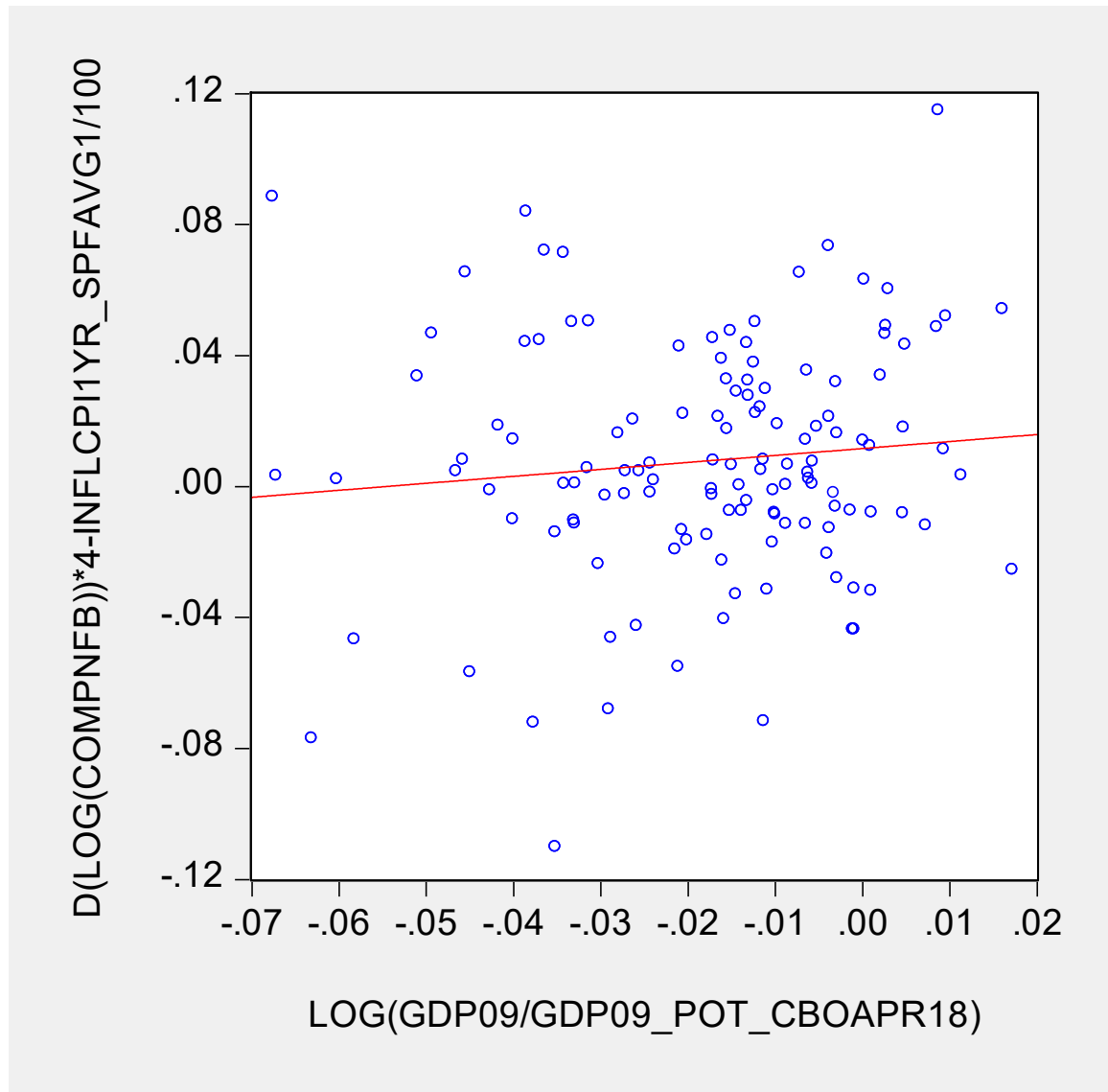
2009Q3-2017Q4



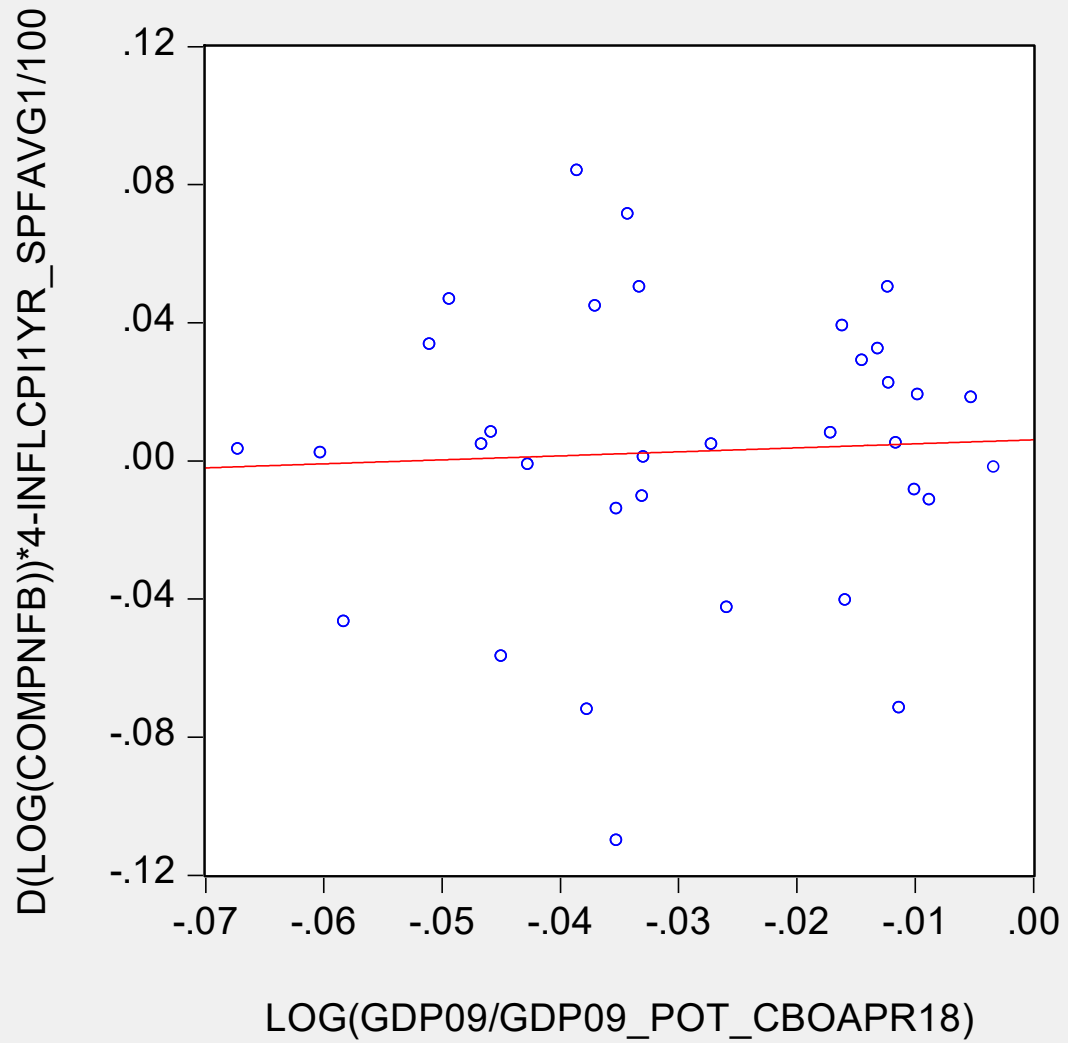
2011Q4-2017Q4



Wages 1985Q3-2017Q4



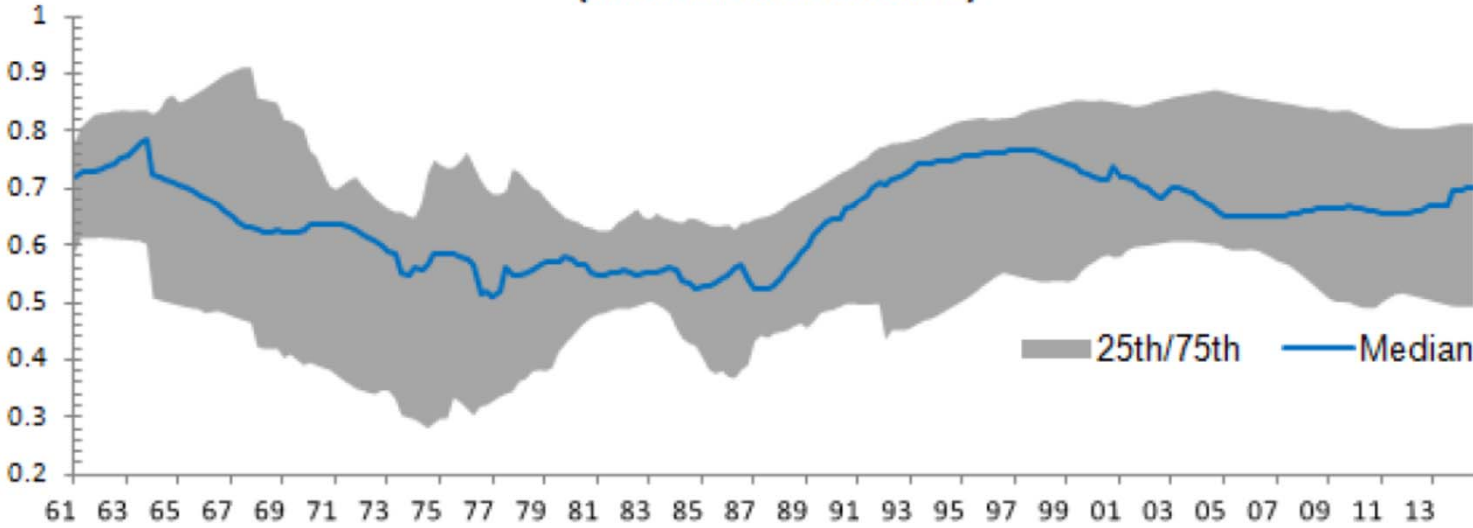
Wages 2009Q3-2017Q4



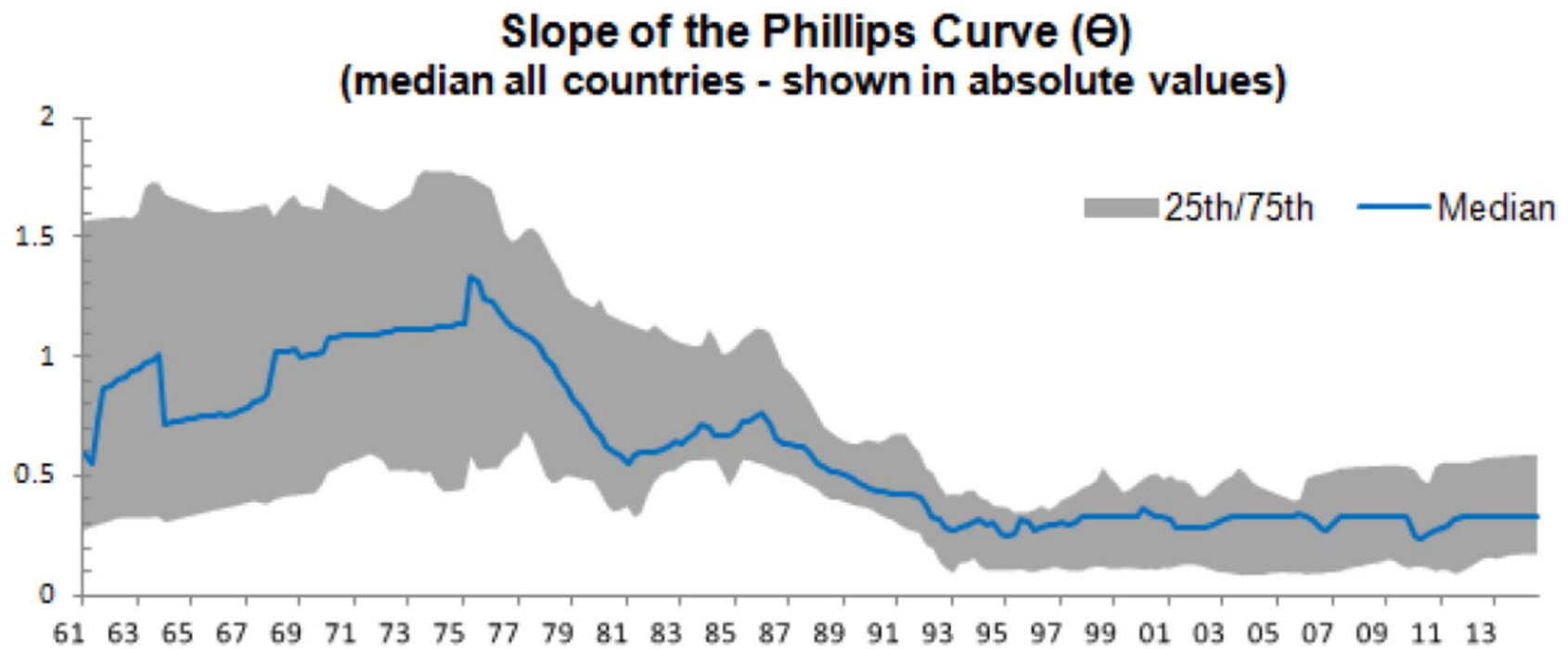
Phillips Curve – and Expected Infl.

$$\pi_t = \theta_t(u_t - u_t^*) + \lambda_t \pi_t^e + (1 - \lambda_t) \pi_{t-1}^* + \mu_t \pi_{mt} + \varepsilon_t \tag{1}$$

**Figure 8: Median estimates (across countries)
Anchoring of Inflation to Long-term Expectations (λ)
(median all countries)**



Slope of the Phillips Curve



Monopsony power?

