Philip’s Curve Activity

For this activity, we will need a few materials. The materials list includes (1) dots, (2) locations-written on notecards, (3) two long sheets of butcher paper with axis, and (4) double-sided tape.

Then, the Butcher paper will be placed on the floor in axis formation (forming the base of a giant graph). It should be placed in the center of the room (move the desks out of the way) so that all students are able to participate and see the graph. Next we will split the students into three groups and hand them each a notecard. All three groups will have different colors (corresponding to different lines that will be made). Each dot will have coordinates related to the axis on the graph.

The first group will be asked to place their dots onto the graph. After the dots have been placed, it should form a nearly straight line with an inverse relationship. We will say that this would be a perfect relationship between inflation and unemployment, as Phillips imagined it.

The second group will place their dots on the floor. This should form a more dispersed, but still inverse, relationship. This shows a more “real world” example of Phillip’s assumptions.

The third should form an unrelated stat plot. This will be used to start to explain Milton Friedman’s observation during stagflation, and start to talk about the LRPC.

Then we will go into a bit more of a detailed discussion of the Philip’s curve. Long Run Phillips Curve: in the 1970's the US experienced concurrent high unemployment and inflation, a condition known as stagflation. Milton Friedman saw stagflation as disproof of the stable Phillips curve. Instead of a trade-off between unemployment and inflation, Friedman and Phelps believed that the natural unemployment rate was independent of the inflation rate. This independent relationship is known as the Long-Run Phillips Curve. The LRPC exists at the natural rate of unemployment.

What does this mean for the economy? As structural changes in the economy cause the natural rate of unemployment, this causes the LRPC to shift as well.

The students will also be given a blank graph worksheet, where they can plot the graph that is on the floor (to be used for studying purposes later). As the students are graphing, the team members will walk around and monitor progress.