CHAPTER 38 : Possible conflicts between macroeconomic objectives

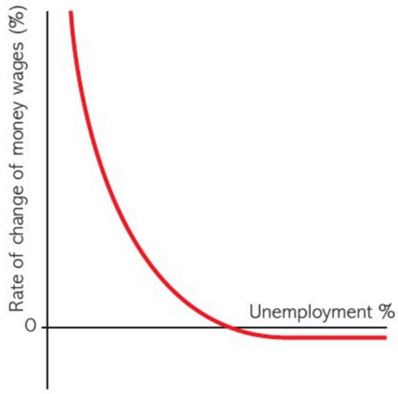
Key terms

1. Short-run Phillips curve : Shows the relationship between the rate of unemployment and the rate of change of money wages. The short-run Phillips curve shows the short-run trade-off between unemployment and inflation
2. Trade-off : when achieving one macroeconomic objective conflicts with achieving another

1. **Inflation and unemployment**

: When there is low unemployment, people have more income to spend more on goods And services

: Consumption increases, AD is likely to increase and hence it leads to "Demand-pull inflation



: Sort-run Phillip Curve shows there is a trade-off between high unemployment rates and higher rates of change of money wages (Inflation)

2. Economic growth and inflation

: High economic growth means people have more income to spend more on goods and services

: Consumption increases, and it can causes " Demand-pull Inflation"

3. Economic growth and current account deficit

: As people have higher income and more ability to buy imported goods

4. Economic growth and Environment issues

: High economic growth means higher production

: It leads to negative externalities to society and hence there will be lower standard of living

5. Low unemployment and inflation

: Firms need to offer higher wage and cost of production will be higher

: Cost-push inflation is likely to occur.