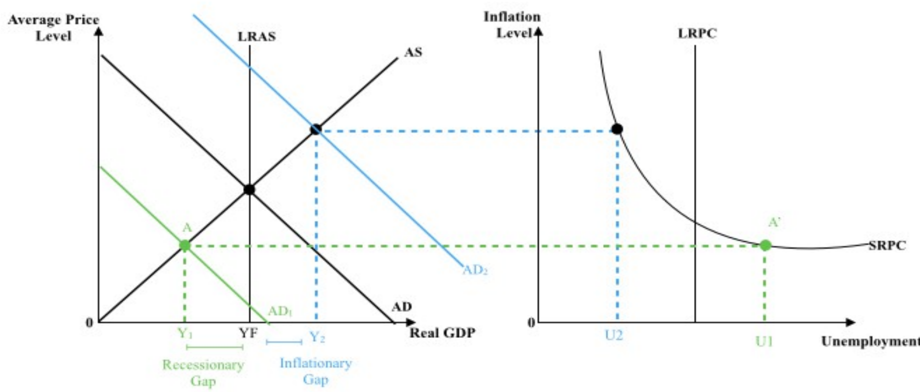
Phillips Curve



AD1 (green):

- When the economy is in recession, there are high levels of unemployment.

AD2 (blue)

- When the economy has high levels of inflation, there are lower levels of unemployment.

The Phillips curve shows that there is a constant negative relationship between the two variables, there is a trade off/opportunity cost of either fixing unemployment of inflation. If the government tries to decrease inflation levels, unemployment levels tend to increase. If the government tries to decrease high unemployment levels, there may be an inflation.

Demand side policy

Demand side policies focus of changing or shifting the AD curve to achieve price stability, full employment and economic growth. These policies try to counteract the effect that businesses and consumers have by bringing the AD to full employment of real GDP or potential GDP.

Fiscal policy

Using government spending and revenue to influence the level of AD.
Government revenue sources:

- Taxes
- Sales of goods/services (from government owned businesses)

What can the government do?

- Change its level of spending
- The level of investment can be changed
- The level of consumption (AD) itself.

Expansionary Fiscal	Contractionary Fiscal