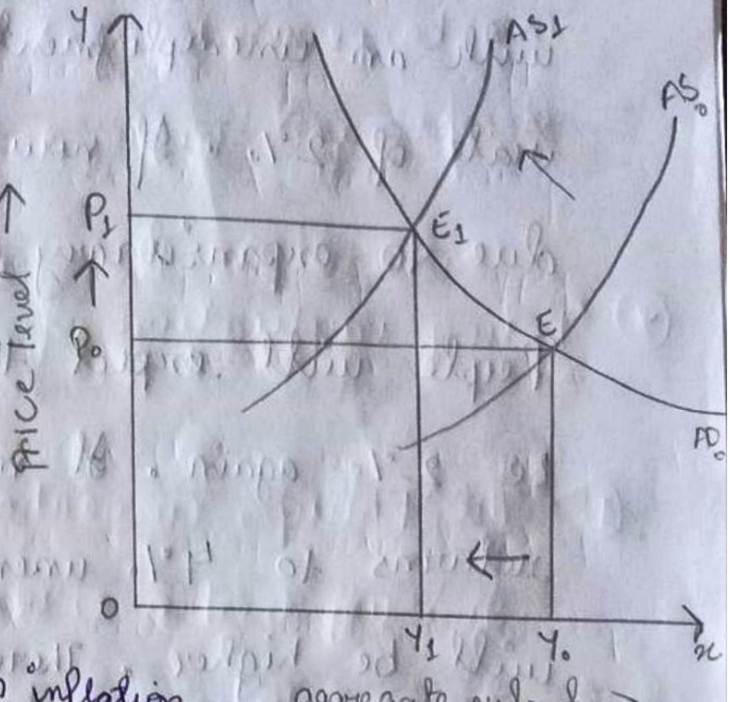
① Collaps of Phillips Curve or Shift in Phillips Curve :



During the seventies and eighties in the united states, rates of both inflation and unemployment increased that is higher rate of inflation was ~~accrited~~ associated with a high employment rate. Which shows the absence of trade-off between inflation and unemployment that is Phillips curve. It is due to the increase in Prices of oil and Petroleum products. The rise in oil prices brought about a rise in the cost of production of several commodities, increases the transportation cost. It causes a shift in the aggregate supply curve from AS_0 to AS_1. Output falls of Y_1 which will cause unemployment rate to increase. Thus we have a higher price level with a higher unemployment rate. This is called a shift in Phillips curve.

② The shift in Phillips curve also occurs due to a change in expectations about inflation. For example, Suppose an economy is in equilibrium with an unemployment rate of 4% and inflation rate of 2%. If now rate of inflation increases due to expansionary Policies by the Government, People will expect that the inflation will never be 2% again. It means that if the economy returns to 4% unemployment, the inflation rate will be higher. Therefore the Phillips curve must have shifted due to this expactions redarging higher inflation.