

A LEVEL ECONOMICS

EXAMPLE ESSAYS

Macroeconomic objectives

Macroeconomic policies

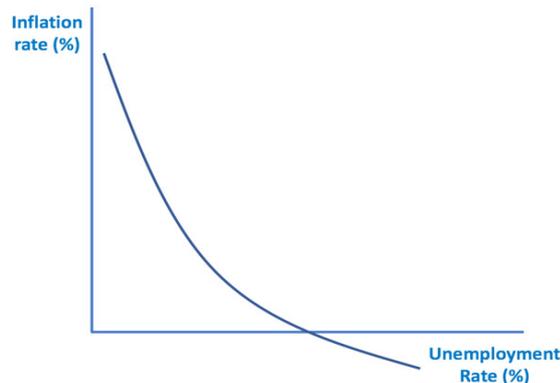
Policy conflicts

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“The Phillips Curve is no longer of use to policymakers”. Discuss the extent to which you agree with this statement.

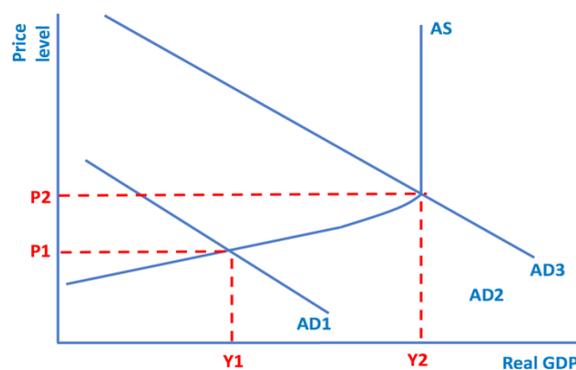
Whether the Phillips Curve remains of relevance really depends on whether a Keynesian or Neoclassical perspective on economics is adopted. The Phillips Curve shows the relationship between the inflation rate and the unemployment rate in an economy. Professor A.W. Phillips analysed annual percentage change in money wages and the unemployment rates in the UK between 1860 and 1957, and then plotted them on a scatter diagram. A line of best fit produced a curve which demonstrated an inverse relationship between wage growth and unemployment, explained by the changing wage-bargaining power of workers at different levels of unemployment. Over time the rate of inflation replaced wage growth and the relationship between the two became known as the Phillips Curve. When economists from other countries undertook similar research, they also found similar curves.



It is always interesting to start with a judgement! And then a careful, succinct definition of the key term/concept in the question.

This paragraph shows a sound historical understanding of the origins of the Phillips Curve relationship.

In the 1950s and 60s policymakers used the Phillips curve relationship as a basis for their macroeconomic management by manipulating aggregate demand to the levels of unemployment and inflation they felt were appropriate for their country at that time. The original Phillips Curve fitted neatly into Keynesian theory, which noted that demand management was the best way to direct macroeconomic policy. Fiscal and monetary policy could be used by a government to manipulate the level of aggregate demand to a certain level of real GDP – say Y2 from Y1 in the diagram below. This would move the economy closer to full employment, but also cause some inflationary pressure as the price level rises from P1 to P2. Both the original Phillips Curve above and this Keynesian AD/AS diagram to the right show how Phillips’s evidence supported a Keynesian approach to macroeconomic management, and that the economy could be “fine-tuned” via changes in tax rates, government spending and interest rates.



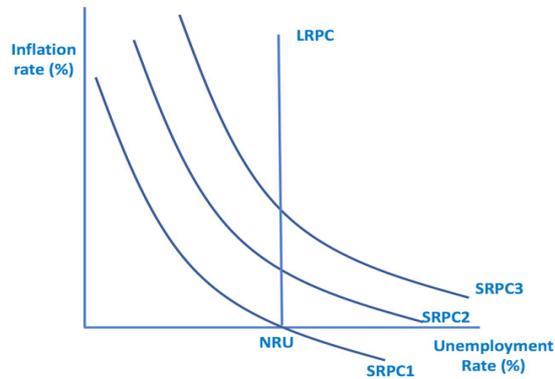
This paragraph is well expressed – it supports the statement in the question by showing that, at one time, the Phillips curve was very important to policymakers – this gives context to the essay because it allows the student to then discuss whether it remains relevant today.

The diagram is carefully referred to in the written analysis – integrating diagrams allows higher marks to be achieved.

However, the mid-1970s were a more turbulent economic period than the 1950s and 60s, with oil crises and substantial industrial action for example, and there no longer seemed to be a long run trade-off between inflation and unemployment; both were occurring at the same time and often rising

Good demonstration of contextual knowledge of the state of the economy

simultaneously resulting in stagflation. This led to reinterpretations of the original Phillips Curve by Monetarist and Neo-Classical economists who argued that, at best, there was only a short-term trade-off between inflation and unemployment, and that the economy would continually return to a natural rate of unemployment (represented by NRU on the diagram below) at which there was no trade off at all – the long run Phillips Curve. The Phillips Curve therefore adapted into the expectations-augmented Phillips Curves in which there was actually a series of different Phillips Curves, each representing the trade-off between inflation and unemployment at different levels of inflationary expectations (see SRPC1, SRPC2 and SRPC3 on the diagram to the right). Policymakers altered their approach to managing the economy and reducing inflation by controlling inflationary expectations via targeted growth of the money supply. Reducing unemployment required action on the supply-side of the economy to reduce the natural rate of unemployment. However, this does not mean that the Phillips curve is irrelevant to policymakers, but more that policy has changed as we have gained a better understanding of the role that expectations and other behavioural economics factors play as well as the importance of the supply-side in addition to the demand-side. Therefore, demand management alone as the centrepiece of macroeconomic policy disappeared as data did not show any longer a conclusive long term trade-off between inflation and unemployment.



This is a complex topic and the student is taking care to explain it as fully as possible in an exam-style essay. This is supported by accurate and integrated diagrams.

The relevance of this complex analysis to the precise question being asked is made clear in the final few sentences of this paragraph, in which the Phillips curve is linked to the work of policymakers.

Between 1993 and 2008 in the UK and the USA, unemployment fell to low levels, but inflation did not pick up, as would be expected according to the Phillips Curve. Many economists explained lower unemployment by pointing to the successful implementation of supply-side policies that had been pursued over several years helping to increase employment. In addition, low priced imports of clothing and electrical goods thanks to globalisation kept inflation down. In other words, we could no longer assume *ceteris paribus*, because the nature and structure of the economy was so fundamentally altered. After the financial crisis in 2008-09 unemployment rose but so did inflation temporarily mainly due to cost push factors. In more recent years up to 2017 unemployment has been falling with inflation quite dormant. Thus data on inflation and unemployment for the UK continue to support the view that a long run trade-off between inflation and unemployment as described by Phillips and that occurred in the past no longer exists. Nonetheless the Phillips Curve should not be ignored because increased aggregate demand will increase pressure on wages and other resources as a negative output gap closes, especially as the economy moves close to full employment. Growth in wages was data used for the original Phillips Curve and any significant growth in real wages would be important for the Bank of England in forecasting future inflation levels.

Good application of real-world evidence and context.

Tackling assumptions is nearly always an effective way to construct an argument.

A relevant conclusion is drawn that links specifically to the question