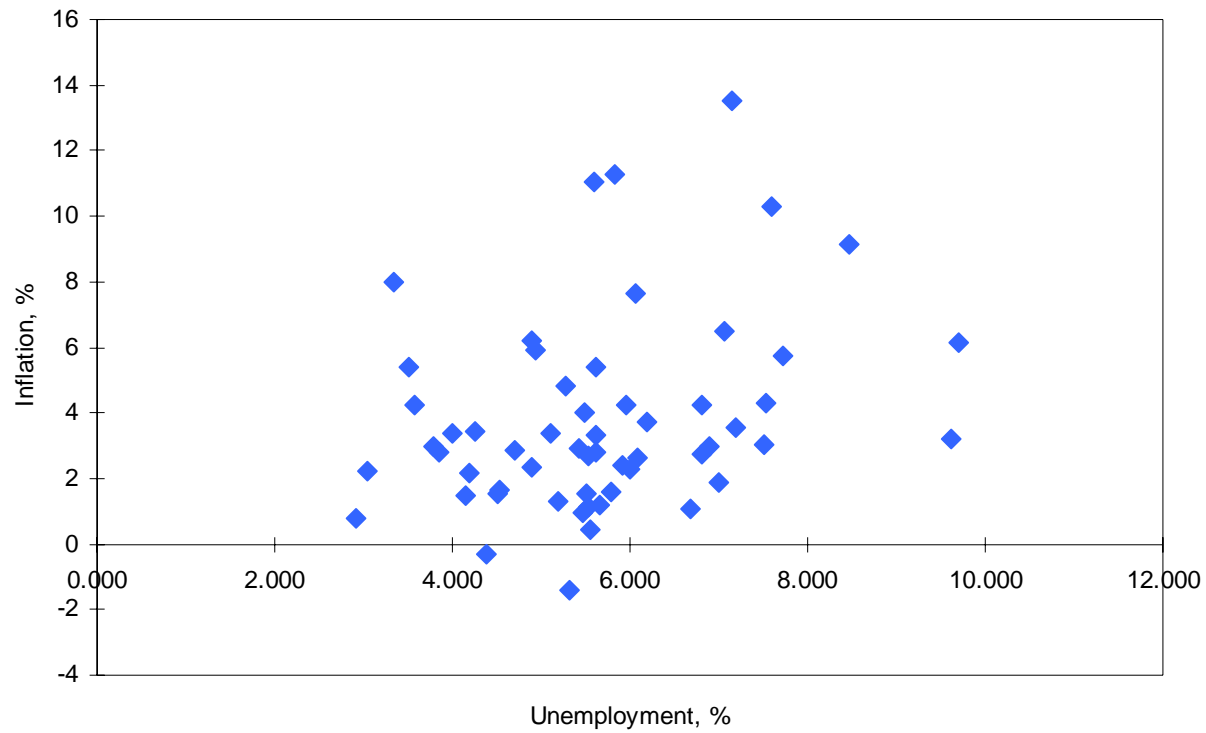


No Stable Short Run Phillips Curve

**Evidence for
First Generation Phillips Curve**

Inflation versus Unemployment

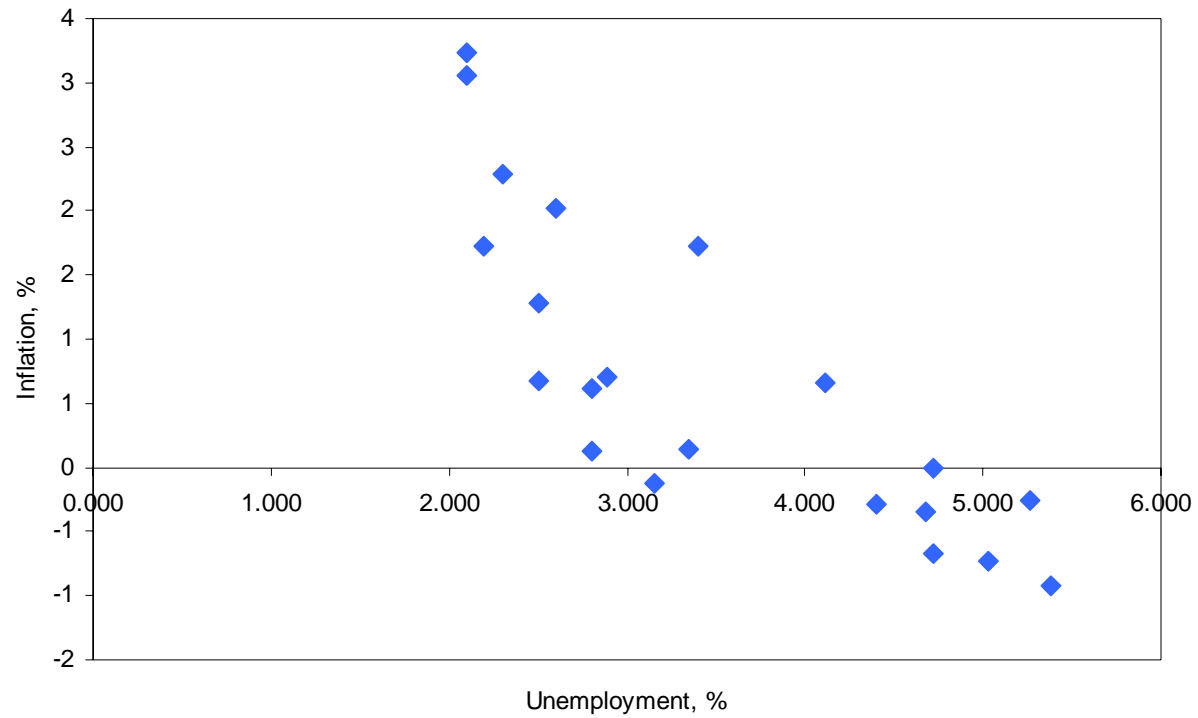
United States



Source: IMF IFS

Inflation versus Unemployment

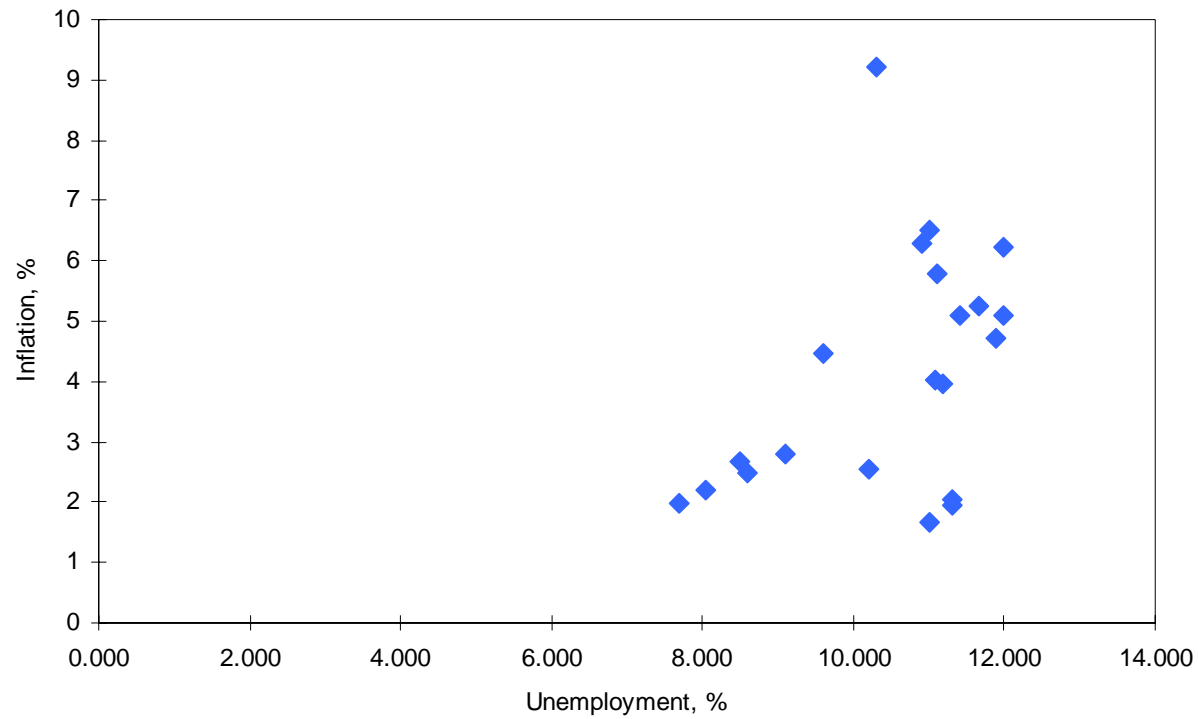
Japan



Source: IMF IFS

Inflation versus Unemployment

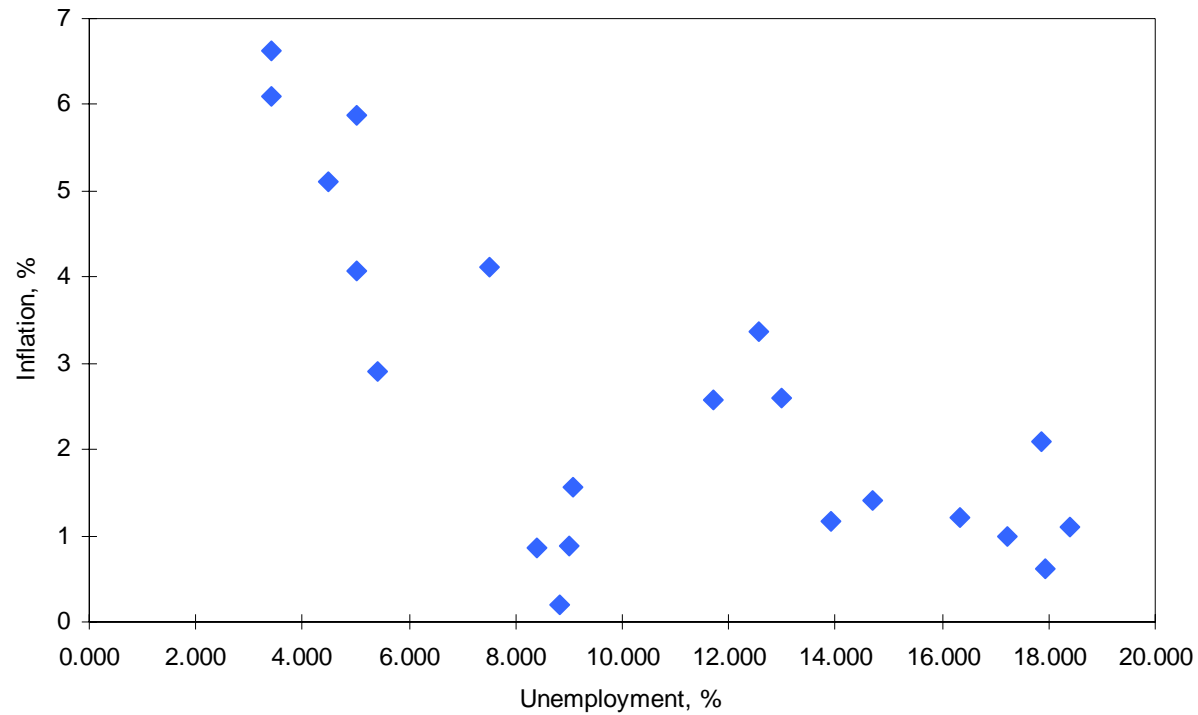
Italy



Source: IMF IFS

Inflation versus Unemployment

Finland

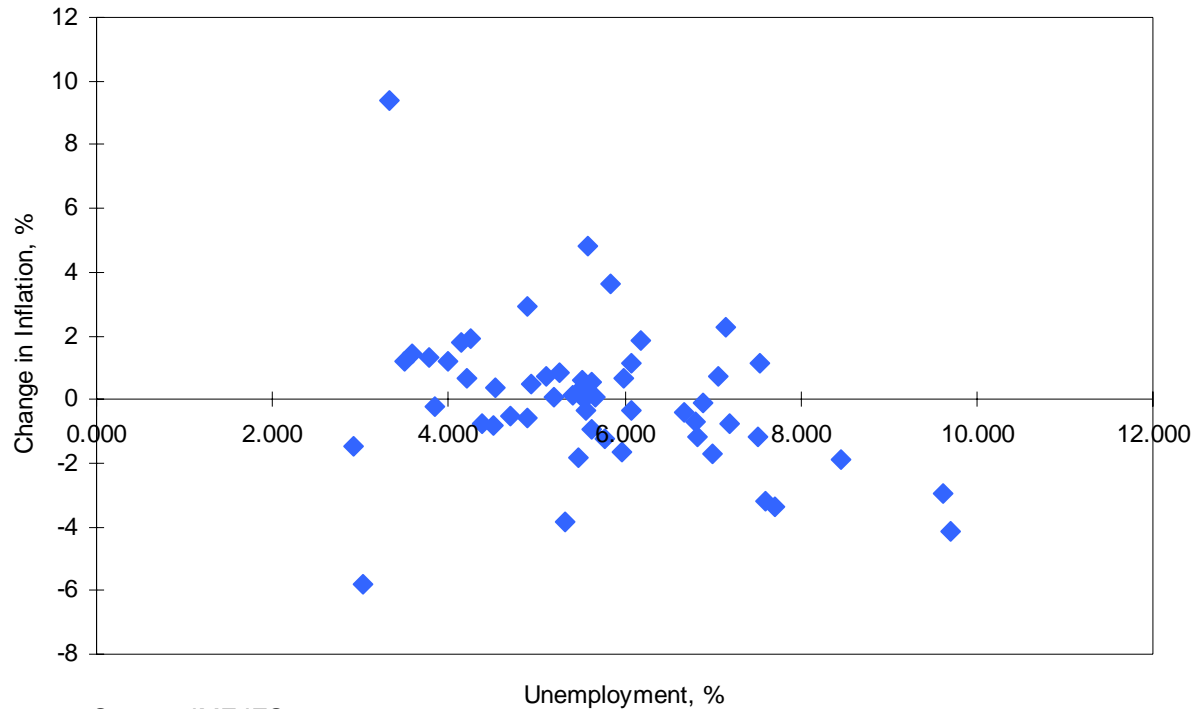


Source: IMF IFS

**Evidence for
Second Generation Phillips Curve**

Change in Inflation versus Unemployment

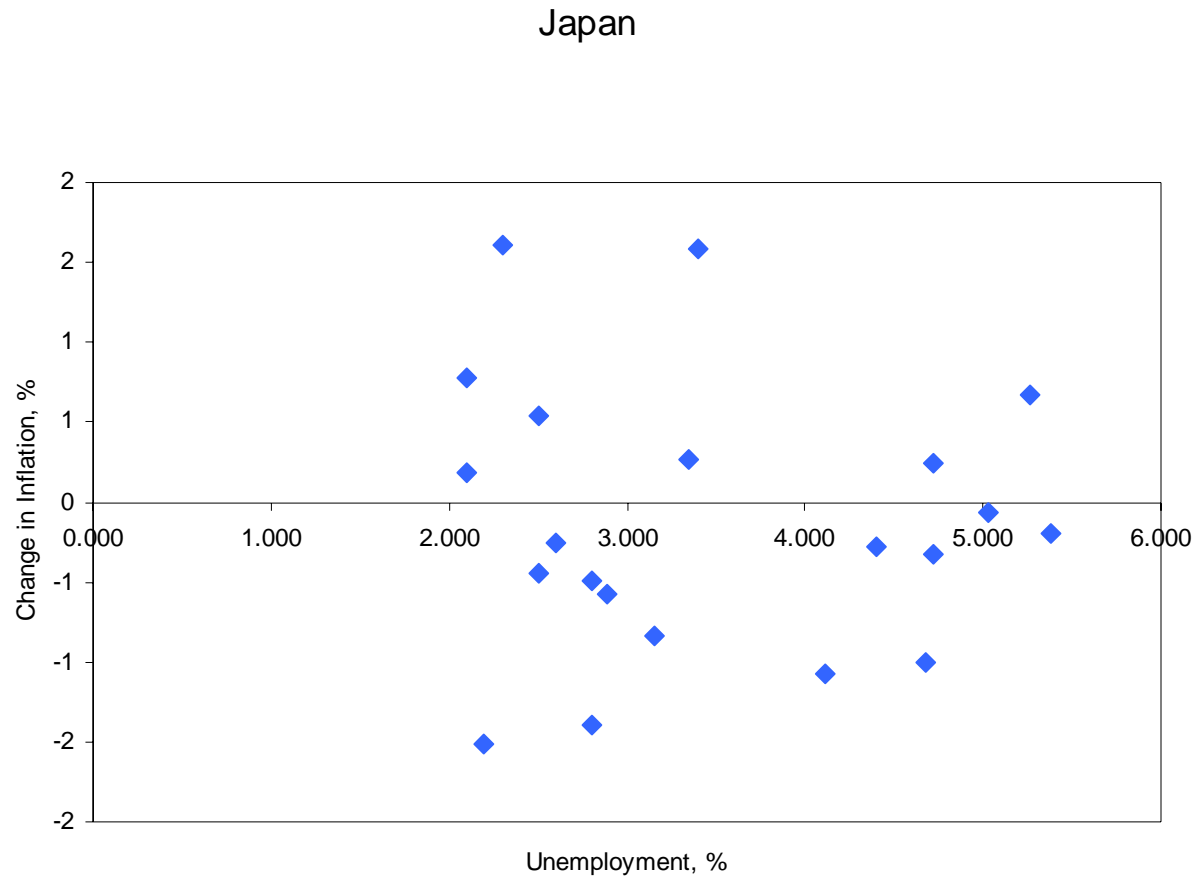
United States



Source: IMF IFS

$$y = -0.54x + 3.07, \quad R^2 = 0.12, \quad t - Stat = -2.81$$

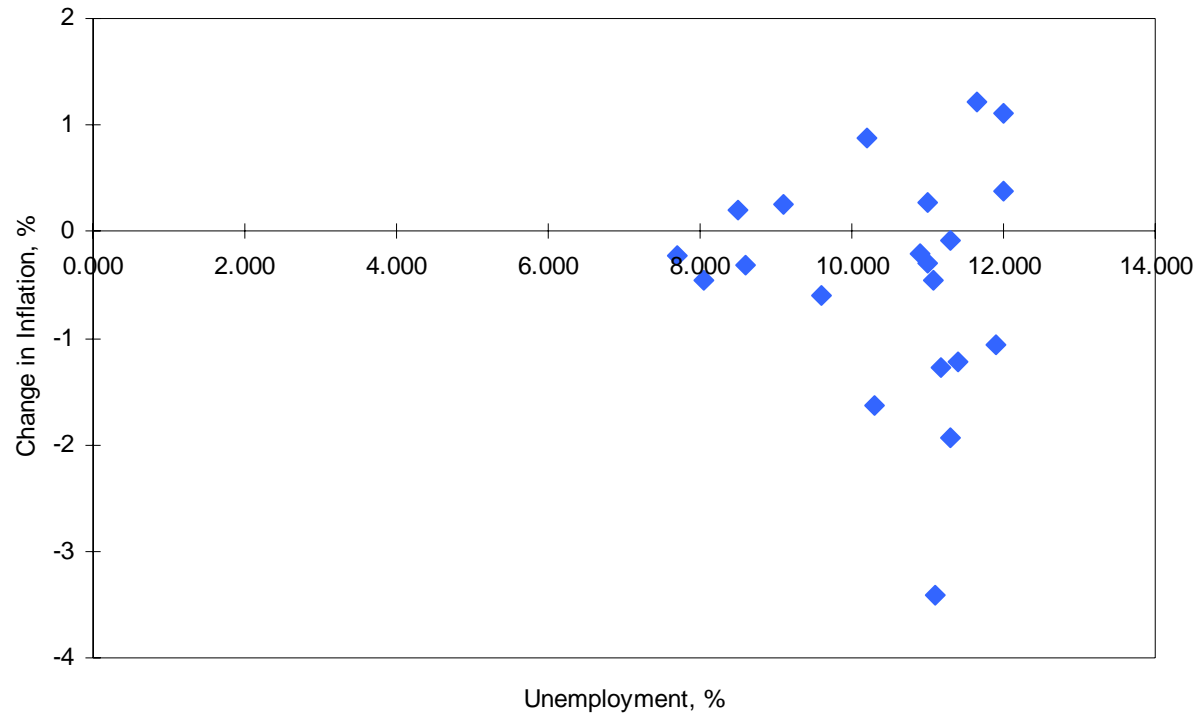
Change in Inflation versus Unemployment



Source: IMF IFS

Change in Inflation versus Unemployment

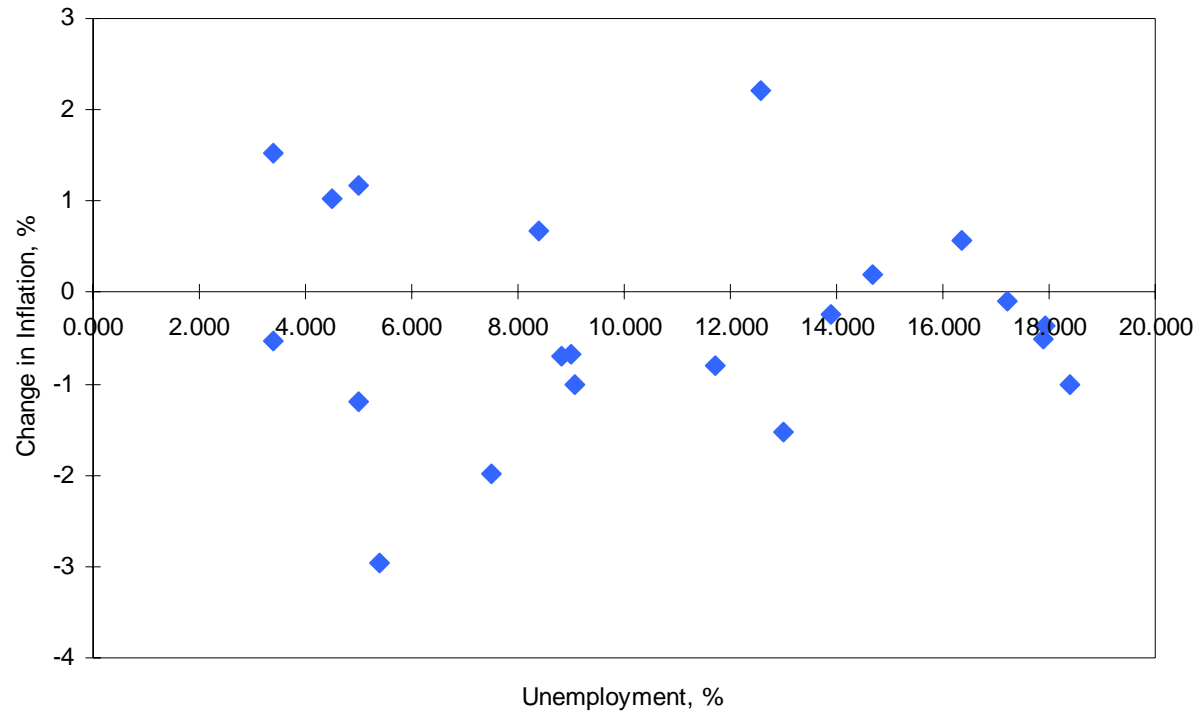
Italy



Source: IMF IFS

Change in Inflation versus Unemployment

Finland



Source: IMF IFS

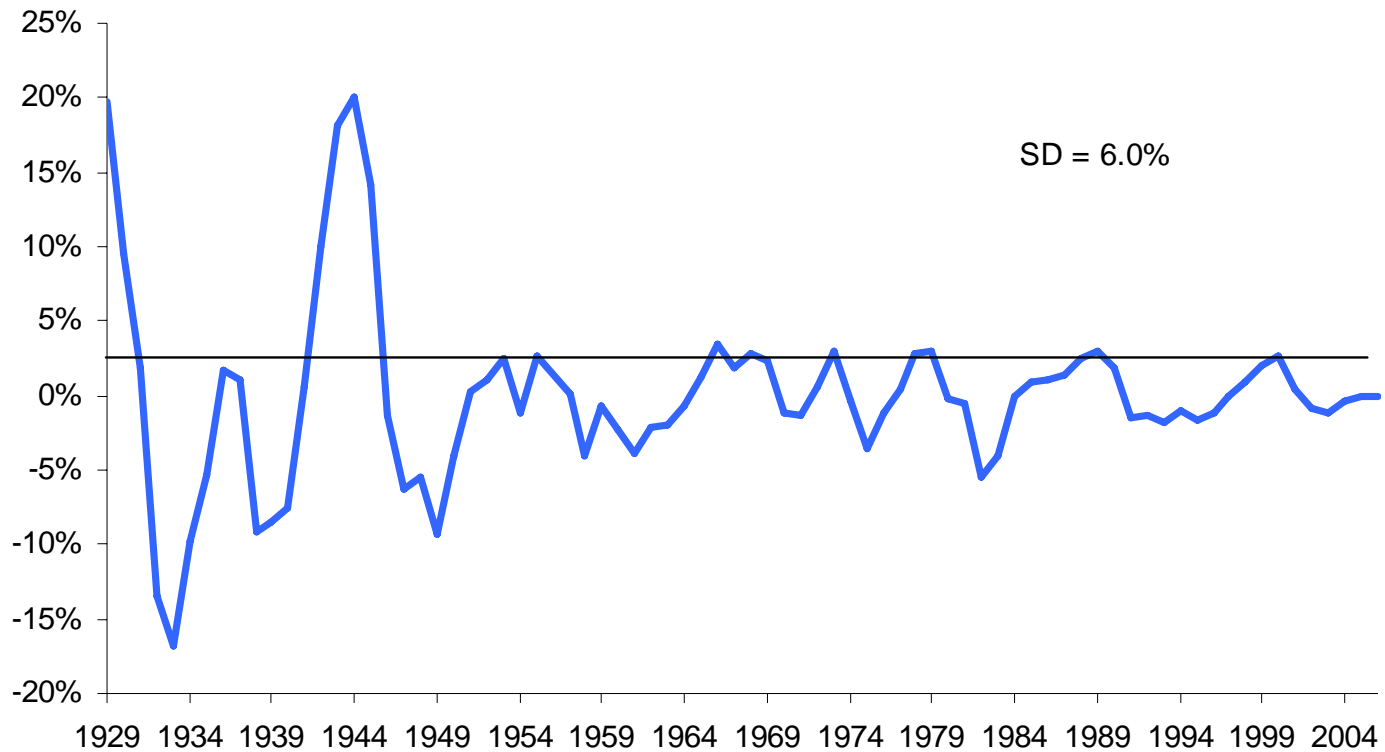
**Does Policy-Invariant
Phillips Curve Pass Smell Test?**

Policy-Invariant Phillips Curve?

- If Phillips curve policy-invariant
 - Zimbabwe should have low unemployment rates
 - Brazil, Argentina should have done well in hyperinflations
- Policy-invariant Phillips curve fails smell test

Business Cycles...Possibly a Big Deal

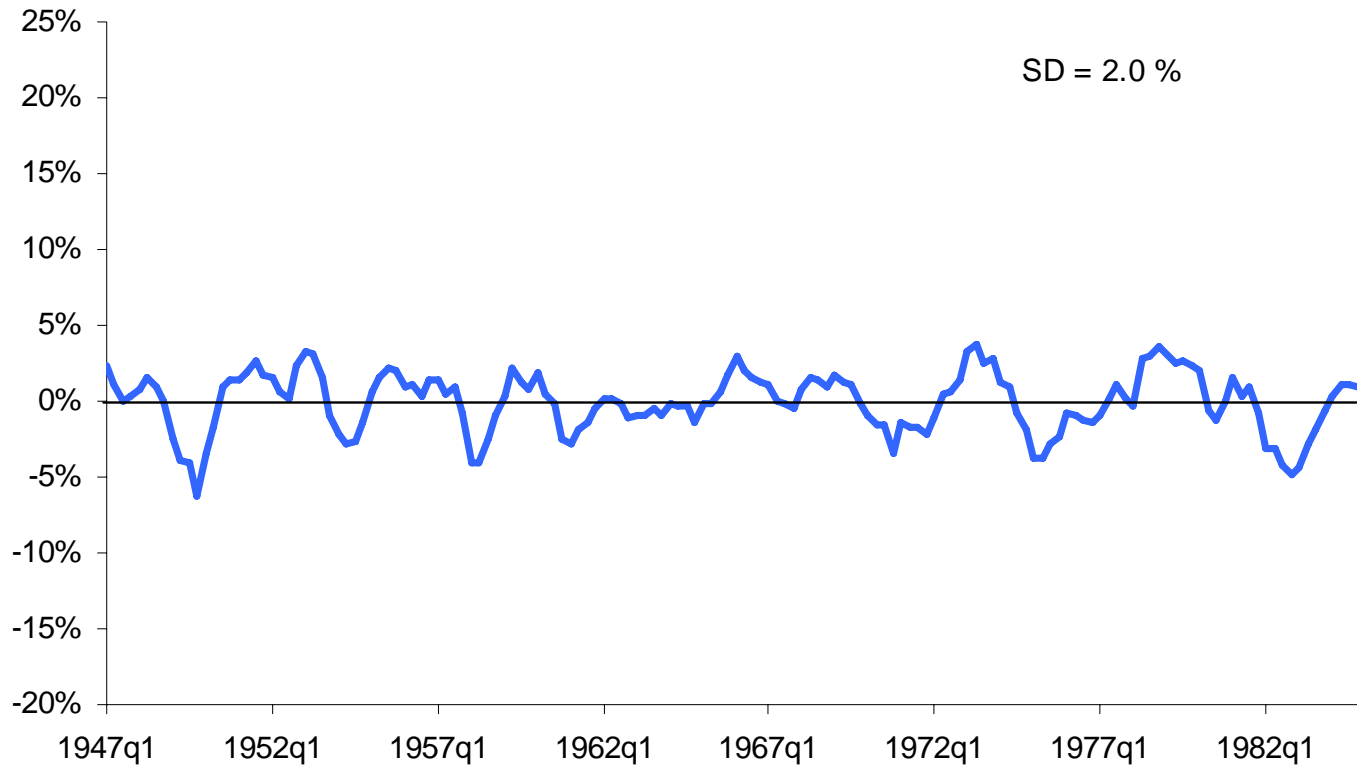
Real GDP: Deviations From Trend
1929-2006 (annual data)



Source: BEA

Business Cycles...Less of a Big Deal

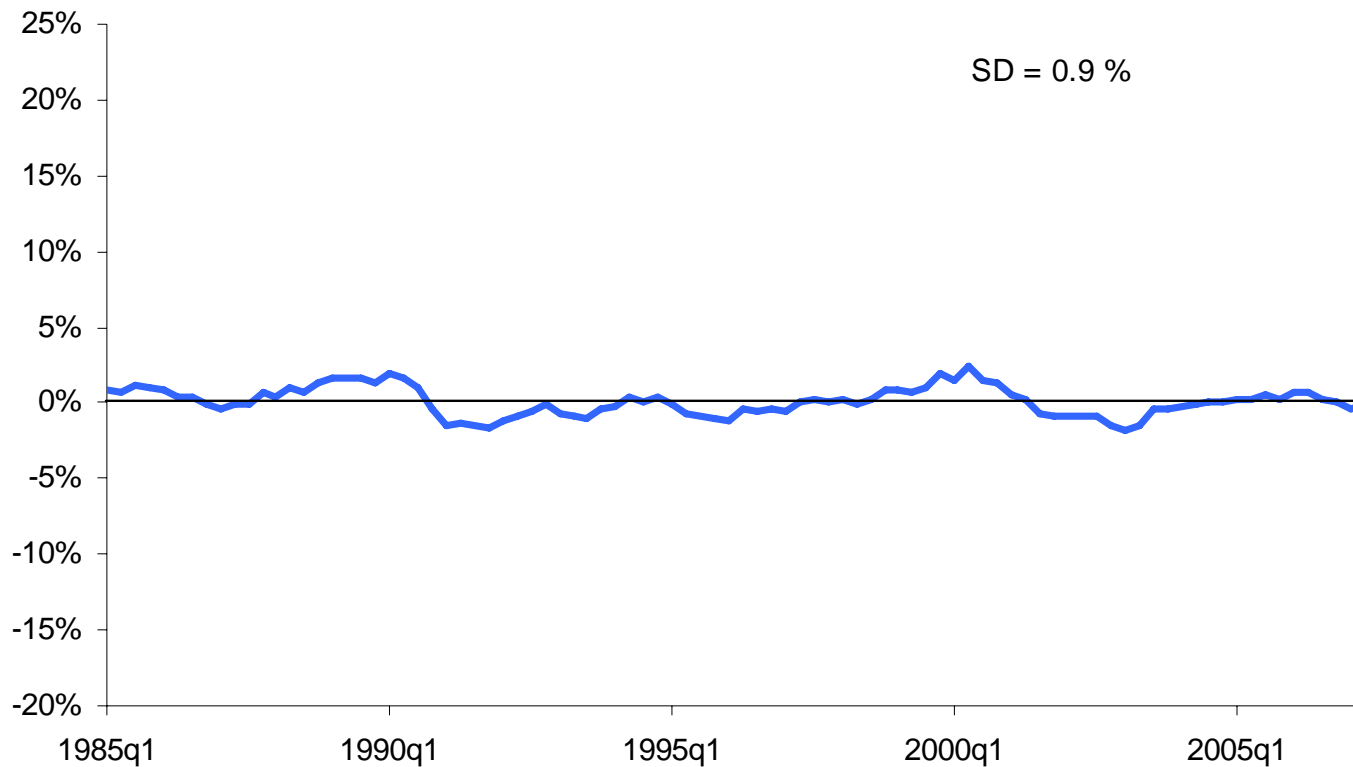
Real GDP: Deviations From Trend
1947-1985 (quarterly data)



Source: BEA

Business Cycles...Even Less of a Big Deal

Real GDP: Deviations From Trend
1985-2007Q2 (quarterly data)



Source: BEA