No Stable Short Run Phillips Curve
Evidence for
First Generation Phillips Curve
Inflation versus Unemployment

United States

Source: IMF IFS
Inflation versus Unemployment

Source: IMF IFS
Inflation versus Unemployment

Source: IMF IFS
Inflation versus Unemployment

Finland

Source: IMF IFS
Evidence for
Second Generation Phillips Curve
Change in Inflation versus Unemployment

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

Source: IMF IFS
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)

SD = 6.0%

Source: BEA
Business Cycles...Less of a Big Deal

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

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

SD = 0.9 %

Source: BEA