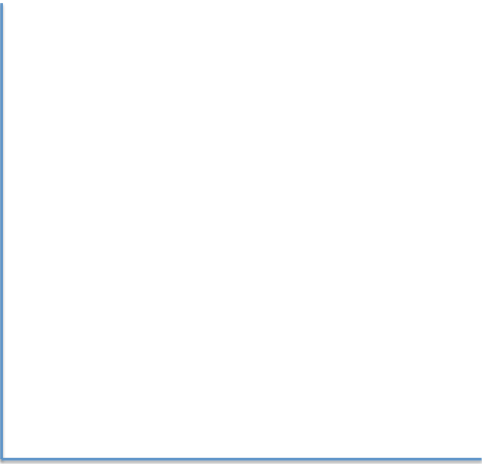


2. Let $\pi_t = \pi_t^e + 0.12 - 3u_t = 0.00 + 3(0.04 - u_t)$. $\pi_t^e = 0.00$ and $u^* = 0.04$. Suppose the natural rate of unemployment is unchanged, the expected inflation rate rises from 0% to 0.02 and 0.04. What will happen to Phillips curve? Graphically illustrate.



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