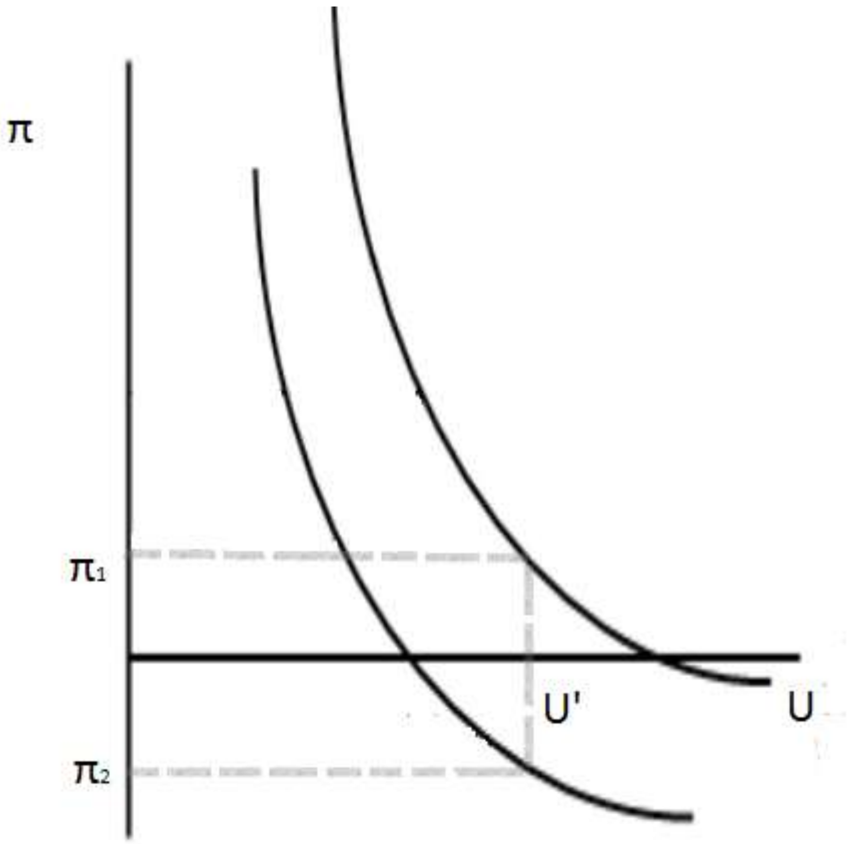
Answer on Question #66160 – Economics - Macroeconomics

Question

If two countries have the same unemployment rate, how can there by inflation in one country but deflation in the other? (Philips Curve)

Answer



Such situation may take place when there are different output gaps within two economies.

Positive output gap stimulates inflationary pressures as excess demand rises costs in product and factor markets. Low supply takes economy equilibrium back towards potential output, but at the higher prices. And visa verse, negative output gap provokes deflation.