Chapter 9, exercise 4 (page 248)

(a) Slope of the Phillips curve = 0.5

(b) Only in terms of the cumulative lost output, you can’t decide between the three. If you want a quick sharp recession and expect people will forget after three years, option 1 is the best. If you want a milder recession, option 3 is the best.

(c) Option 1 is the best.

(d) The only way to lower inflation is to create a recession.

Chapter 9, exercise 5 (page 248-245)

(a) ↓ True output

(b) ↓ Inflation

(c) Central bank too optimistic ⇒ ↑ Ỹ ⇒ ↑ π