which gets passed on to higher prices. Hence:

\[ \Delta P_t = r(U_t) \]

That is it is shaped like:

Problems emerged with the Philips curve in the 1970s when we observed high inflation and high unemployment - something which was not supposed to happen. Ed Phoker had put forward a theory in

![Diagram showing inflation and unemployment relationship](image)

**Equilibrium wage rate.**

If wages are sticky and

\[ W \]

\[ W_1 \]

\[ W_2 \]

OK, but if demand equals supply surely there should be no unemployment and yet we no that in a modern economy there is never any unemployment so how do the new classical school explain that...