

<https://doi.org/10.18778/1508-2008.11.25>

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Evolution of Phillips Curve as a Predictor of Short-Term Inflation

Abstract

Phillips curve is one of the most interesting and controversial issues in economic theory. It has been present in theoretical discussions and practical applications for more than fifty years. During the time it has developed from a very simple univariate relationship to a quite composed multivariate relation with lags and expectations. The modifications were done to make it consist with the changing real economic activity and make it convenient tool for making prediction on short-term inflation. In the paper we try to trace changes in Phillips curve formulation done with the aspect, but it seems that Phillips curve still is not able to capture all aspects of the relation between real activity and changes in inflation and therefore Phillips curve hardly can be seen as an effective tool for short-time inflation forecasting.