

**"WOW,
YOU'RE
BRAVE."**



Strategies to teach the NAIRU to high school Eco students.

ALEX SYMONDS
EMANUEL SCHOOL

Three things to focus on



Narrow the focus -- students
don't need to be subject matter
experts

Focus on application -- past
HSC-style questions are the key

Focus on feedback -- student
marking activities

1. Narrow the focus.

What do students WANT to know?

- Everything. Every conceivable angle or fact.
- Nothing. They want nothing to do with the NAIRU.
- "My friend who's at school X was told that..."

What do students NEED to know?

- A simple definition for the NAIRU.
- What happens above/below/at the NAIRU.
- The 'appropriate' policy responses above and below the NAIRU.

What do students NEED to know?

"PUT SIMPLY*..."



The NAIRU

- The NAIRU is the non-accelerating inflation rate of unemployment
- Put simply:

The NAIRU is the level of unemployment at which there is no cyclical unemployment

***HOLD THE PHILLIPS CURVE**

TWO CORE IDEAS

**AT THE NAIRU, CYCLICAL UE = 0
(AND THIS IS CONSIDERED FE)**

**THE NAIRU TELLS US WHICH POLICY SETTINGS
TO USE TO ADDRESS UE.**





2. Focus on application

- There is a pattern in terms of the way NAIRU questions are asked in the NSW Eco HSC.
- Students do not need to be prepared to write an essay solely on the NAIRU.
- What do they need to be prepared for?

"CAN YOU READ OVER MY NOTES ON THE NAIRU?"



Source: NESA, 2015 NSW Eco HSC

Question 23 (continued)

- (c) A country's economy is operating at the non-accelerating inflation rate of unemployment (NAIRU). **5**

What are the policy implications of this for the country's government if its aim is to reduce unemployment?

.....

.....

12 The table shows data for a hypothetical economy.

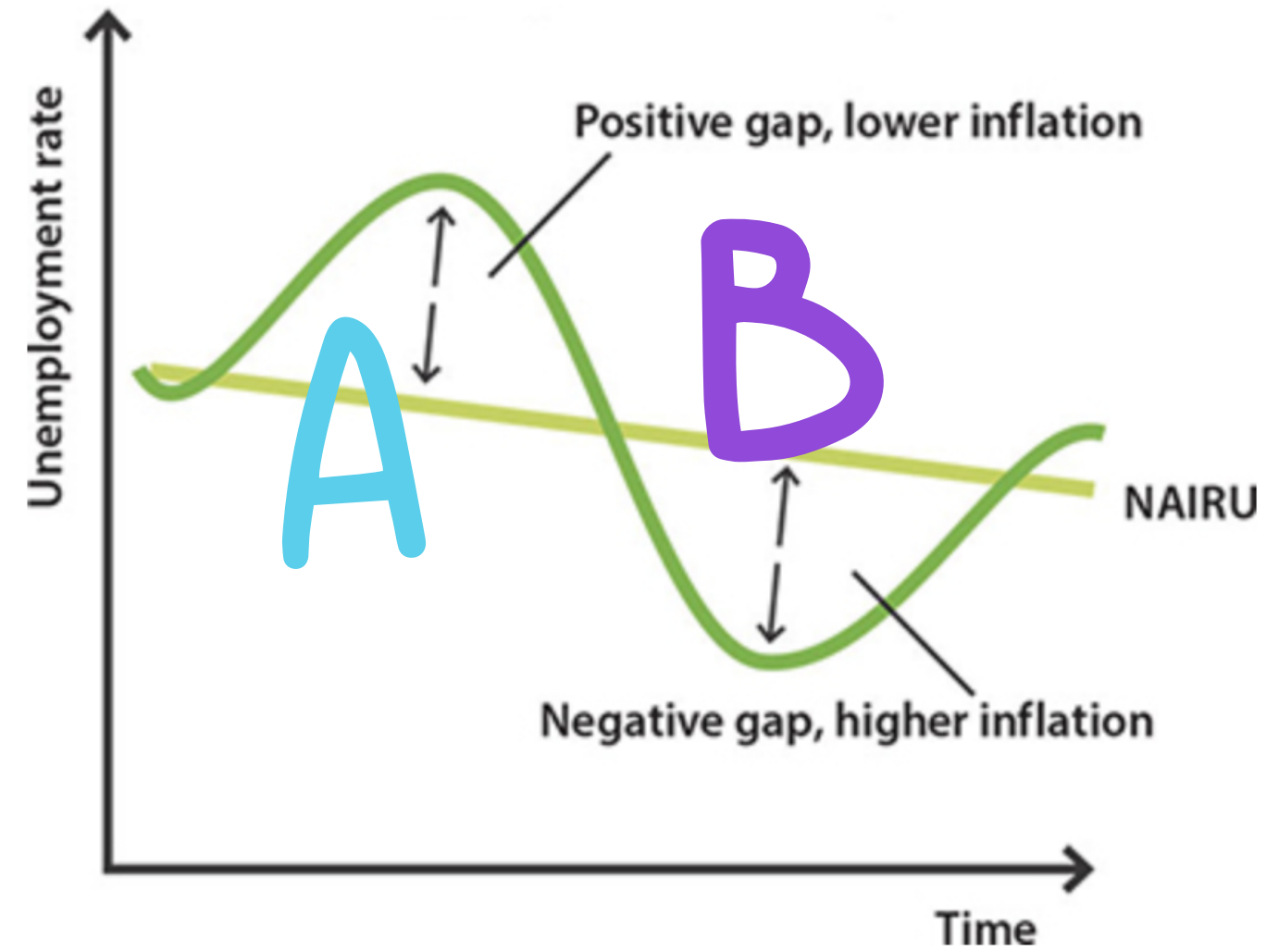
<i>Year</i>	<i>Real GDP growth rate</i>	<i>Unemployment rate</i>
1	2.10%	5.20%
2	2.90%	5.20%

Assume the economy is operating at the non-accelerating inflation rate of unemployment (NAIRU).

Which of the following describes the most likely relationship between the changes in the economy's real GDP growth rate and level of unemployment?

- A. Lower aggregate supply leading to a reduction in dynamic efficiencies
- B. Lower aggregate supply accompanied by a decrease in technical efficiencies
- C. Higher aggregate demand accompanied by a decrease in underemployment
- D. Higher aggregate demand leading to a reduction in structural unemployment

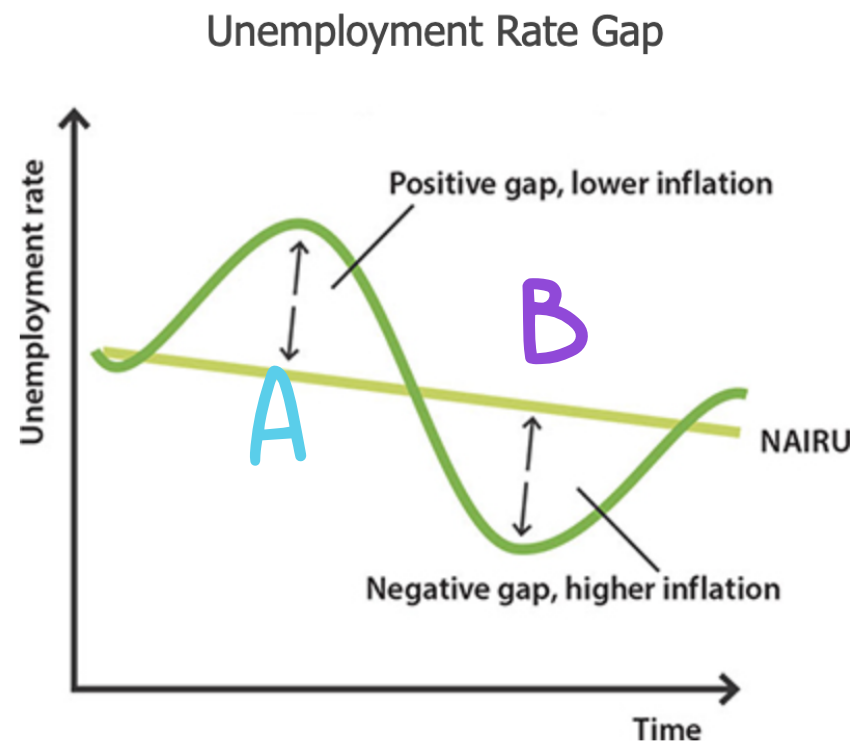
Unemployment Rate Gap



Graph: RBA

A useful jumping off point

Graph: RBA



- What is the relationship between UE and the NAIRU at point A and B?
- What types of UE are present or absent at point A and B?
- What would happen to inflation pressures at point A and B (with explanation)?
- What could be policy responses at point A and B? Explain how they would affect the level of UE and the economy.

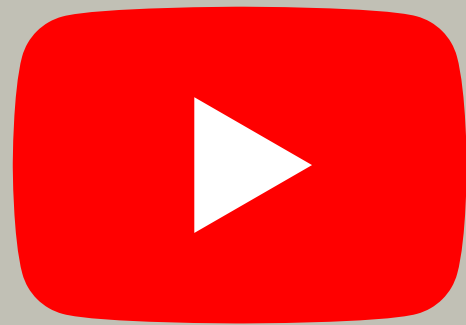
3. Focus on feedback

Sample answer:

At the NAIRU an economy is operating with zero cyclical unemployment (ie full employment). This means any policy which aims to increase aggregate demand (eg expansionary fiscal policy) will increase inflation without reducing unemployment. Therefore, a government that aims to reduce unemployment must reduce structural or frictional unemployment. Government can do this by labour market reforms, which increase flexibility, mobility and skills in the labour market. This is potentially difficult for governments due to limitations such as time lags and political constraints.



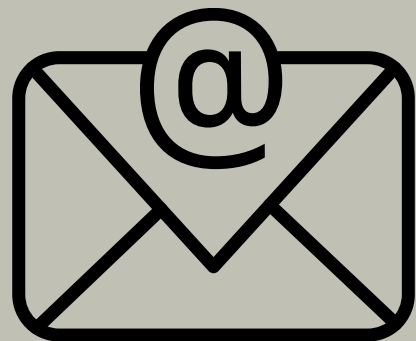
Keep the conversation going:



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mrsymonds.com



asymonds@emanuelschool.nsw.edu.au