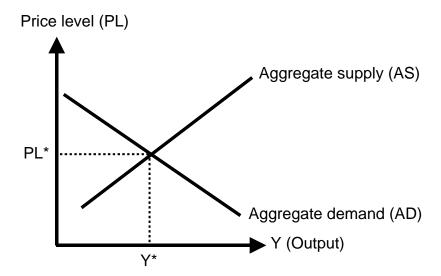
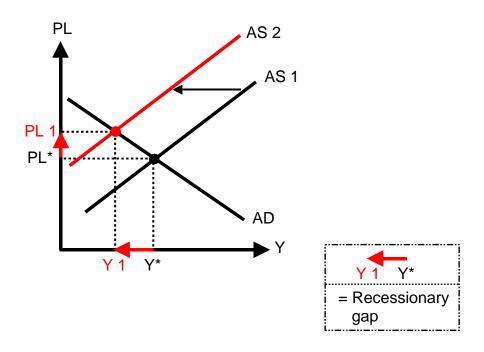
Stagflation

1 The starting point is an economy enjoying **full employment** (Y*):



2 Now a **supply-side shock** takes place (for example a substantial rise in the price of oil):



The supply shock results in a **stagflation**, that is in a combination of inflation (PL 1 > PL*) and recession (Y 1 < Y*).

4 There is **no easy way out** of a stagflation.

