

AD

0

Price level

PO

AD

0

AD

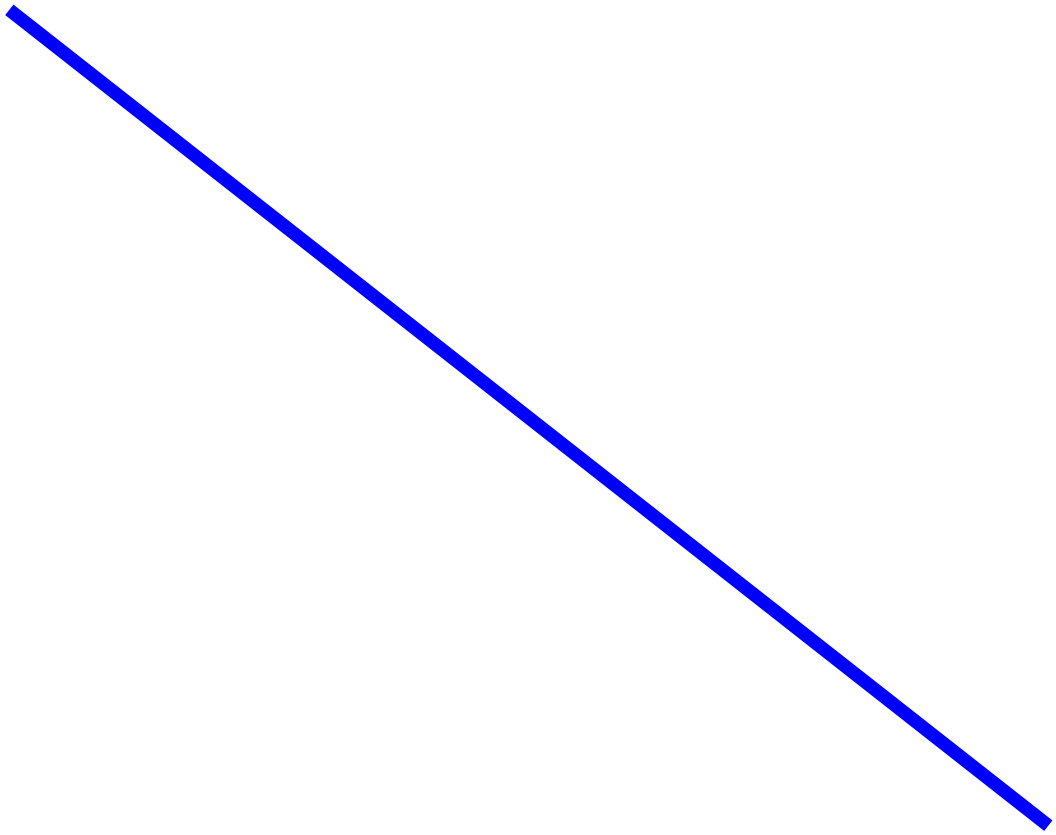
1





AD

1



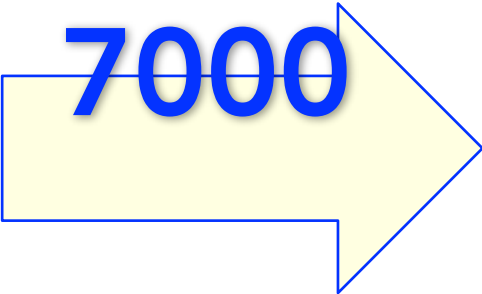


AD > AS,

inventories

drop

7000







**Firms increase
output but DO
NOT raise prices:**

**If there is excess
capacity and
massive
Unemployment**

**The shift in AD is the
same as the increase
in Equilibrium output**

Yo

Y₁



**Output increase by FULL multiplier
amount**

AS is Horizontal

PO



The shift in AD is the same as the increase in Equilibrium output

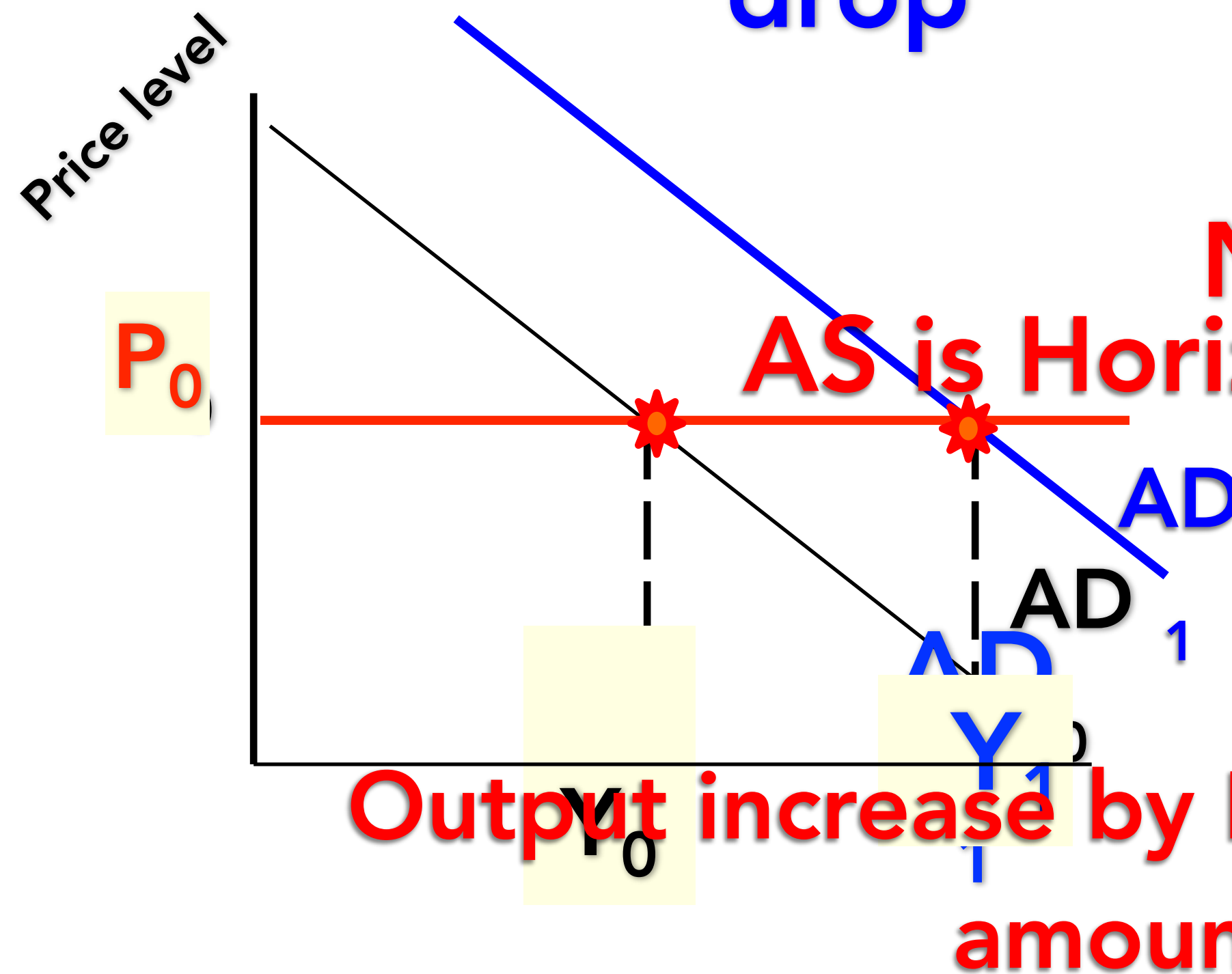
inventories

drop

massive

Firms increase output but DO NOT raise prices:

AS is Horizontal



The shift in AD is the same as the increase in Equilibrium output

