



The decrease in GDP  
SMALLER than Shift in AD:





**AD**

**1**

**Price level**

**P**

**1**









**ADo**

**AS**

**1**



**Y**

**O**

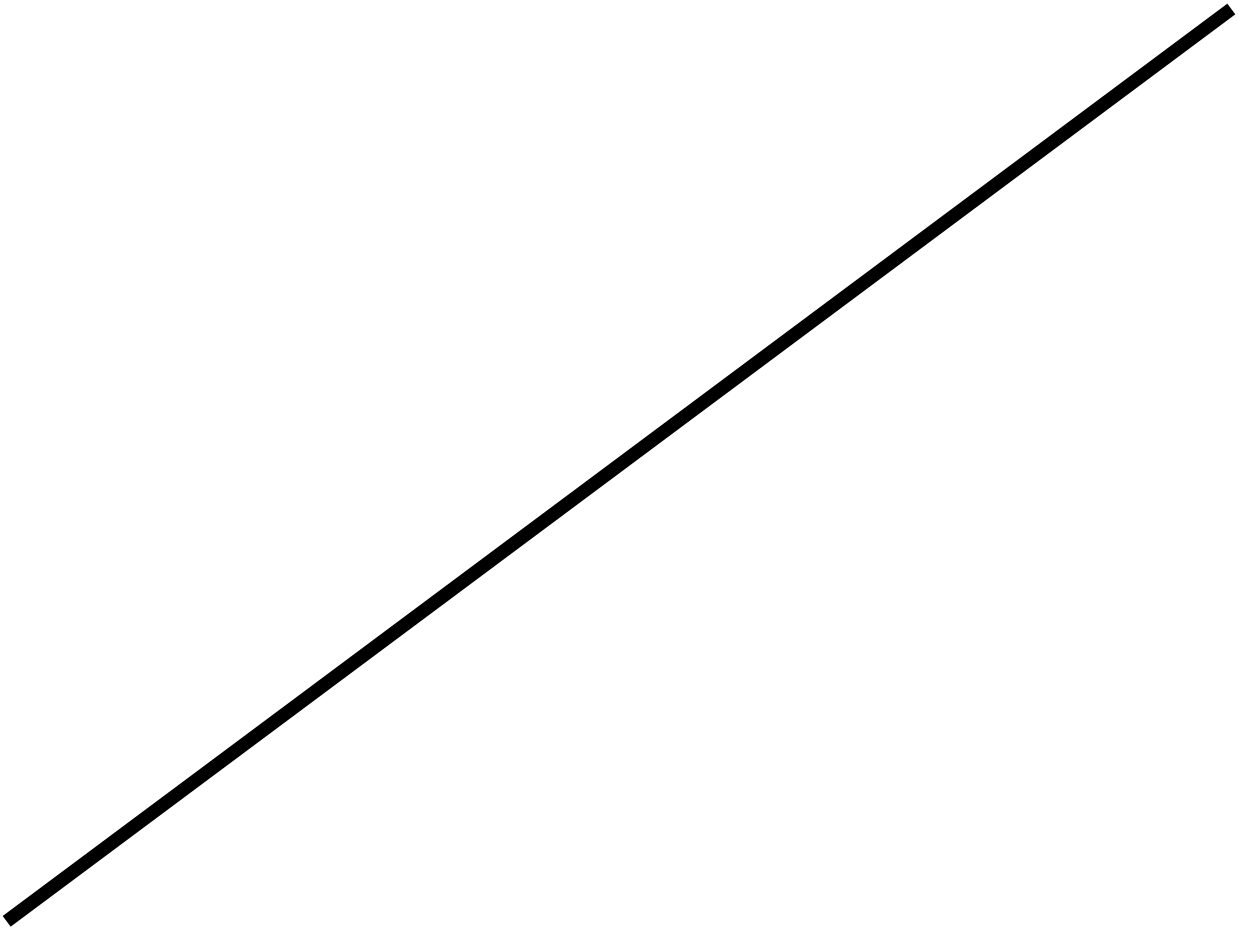


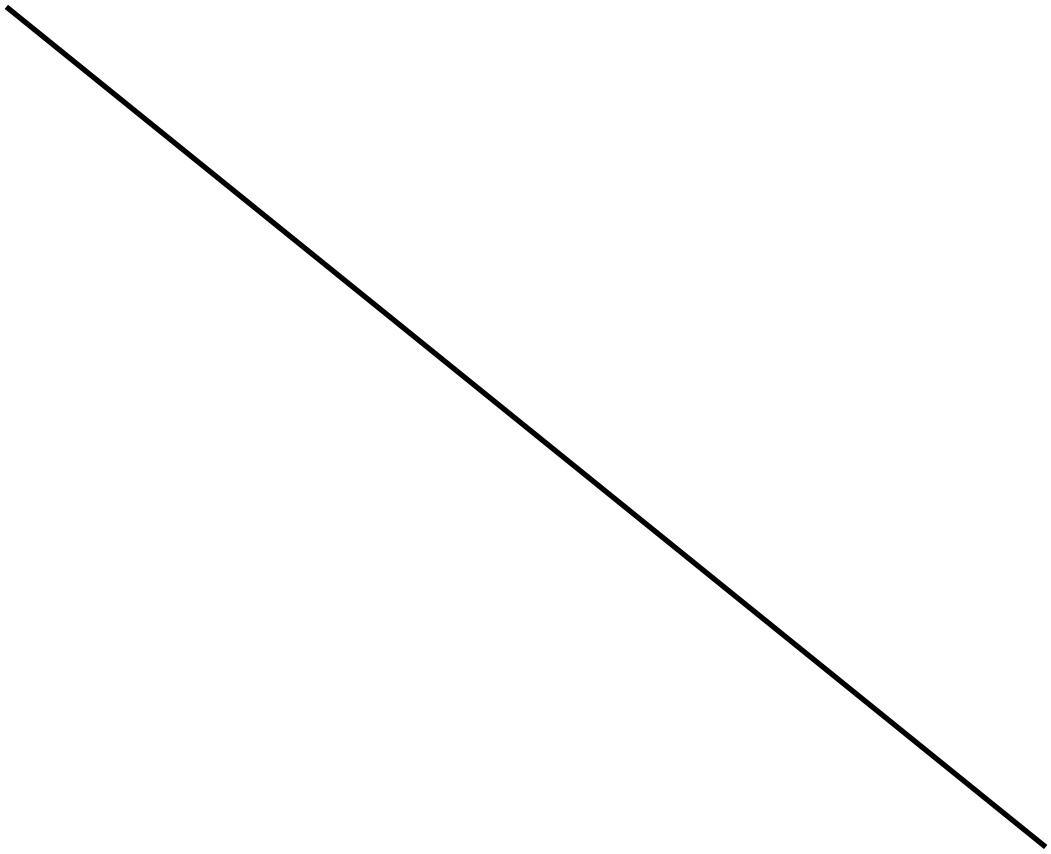
**P**

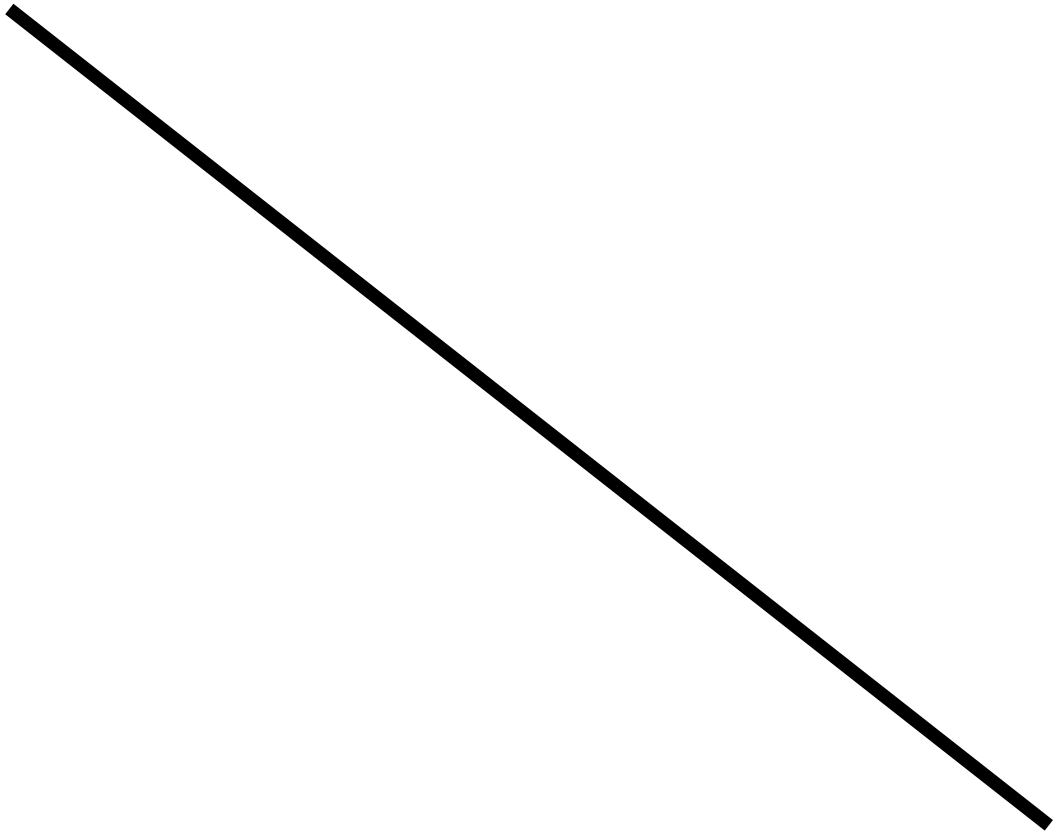
**O**













**Output decrease by LESS than multiplier  
amount: deflation reduces the multiplier**

**AD < AS**

**inventories**

**rise**

**Firms  
decrease  
both  
production  
and prices:  
AS slopes  
upward**



**With some excess  
capacity and low  
unemployment,**



**1,000**

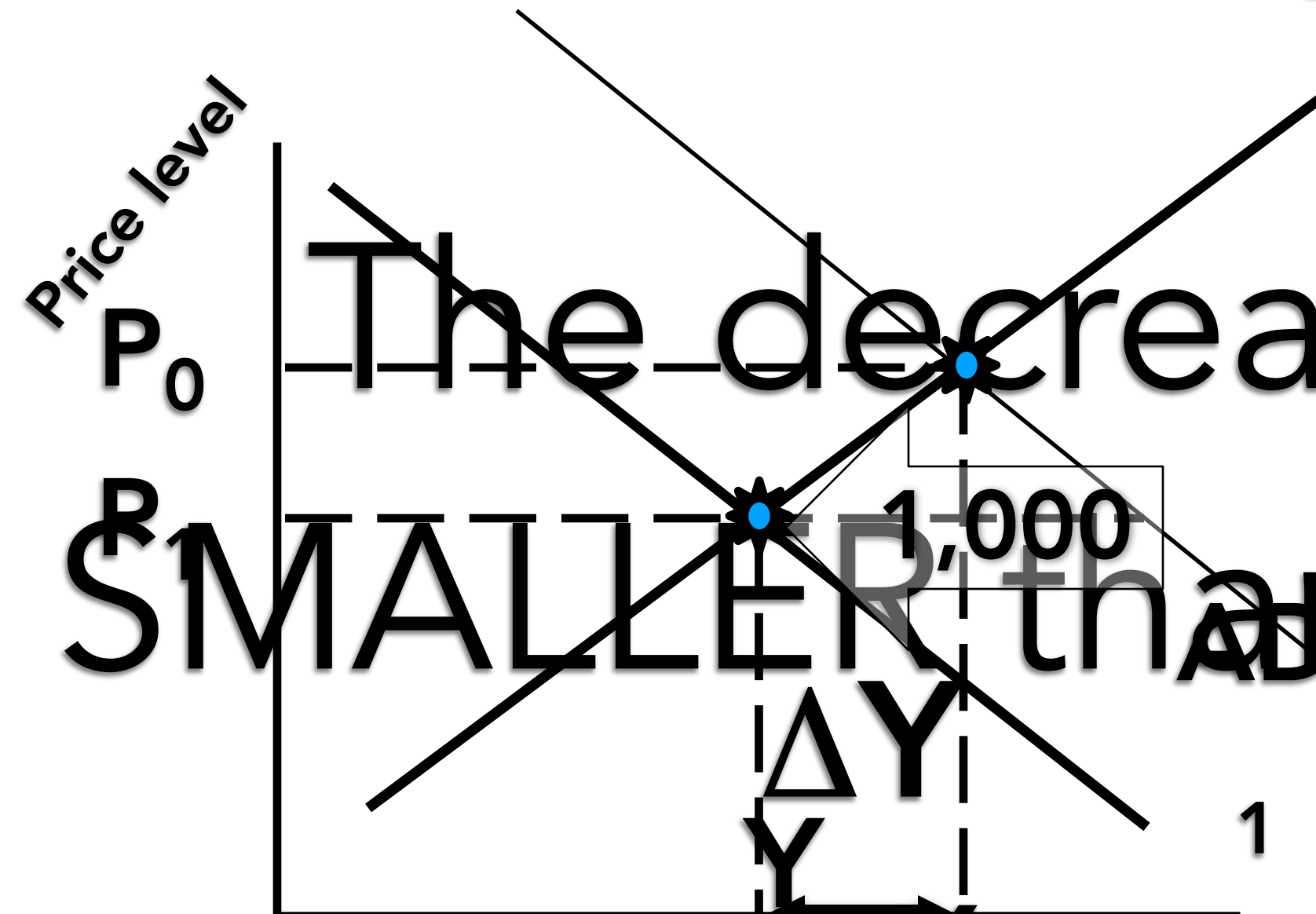




$AD < AS$

With inventories  
some excess

Firms  
capacity and low  
decrease  
unemployment,



The decrease in both  $P$  and  $Y$  is **SMALLER** than the shift in  $AD$ :  
and prices.

$AS$  slopes

Output decrease by LESS than multiplier  
amount: deflation reduces the multiplier

