

**A**

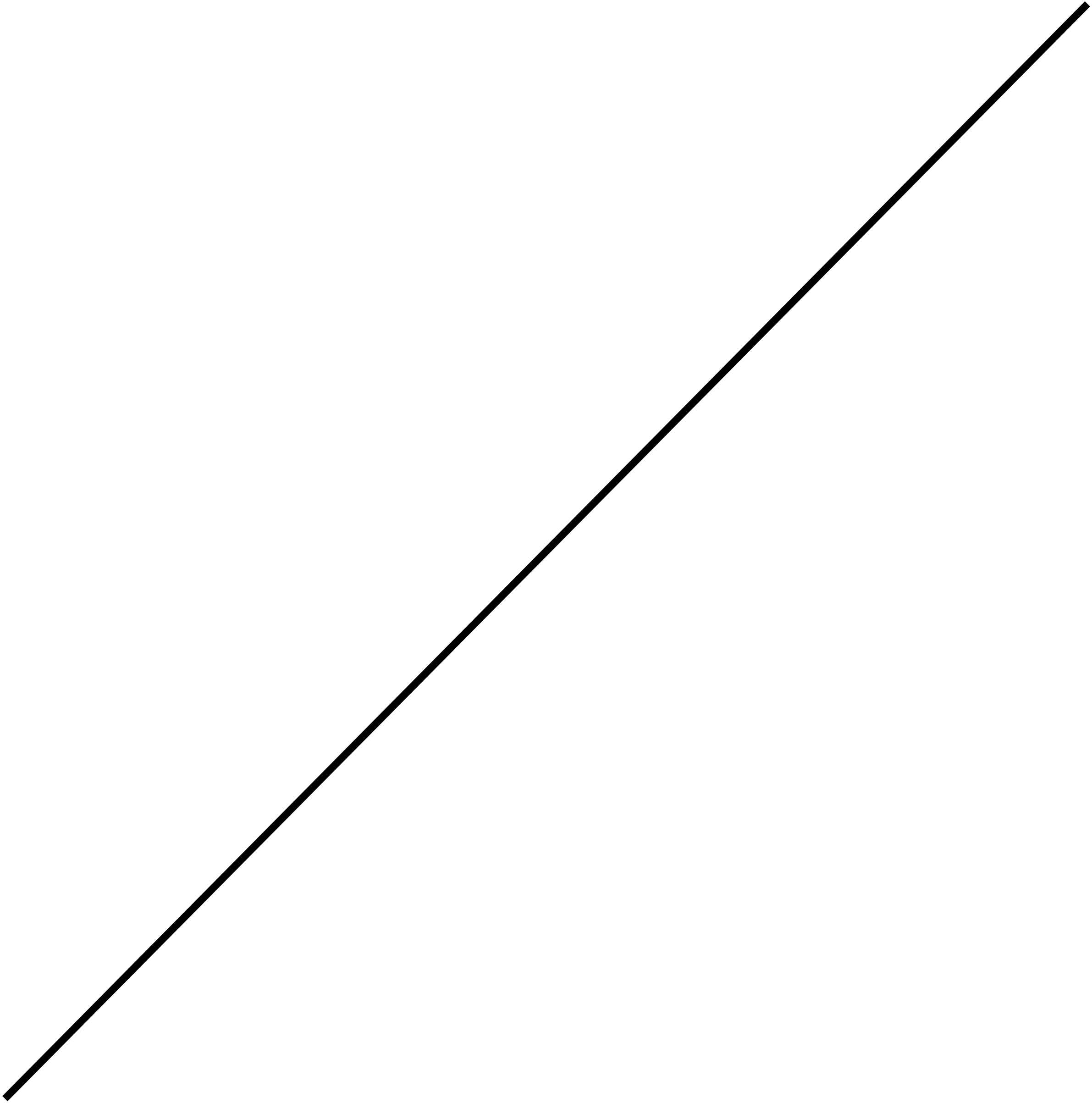
**E**



Equilibrium GDP:

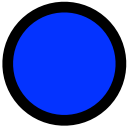
9,000







Equilibrium



A

E

# Potential GDP



Potential

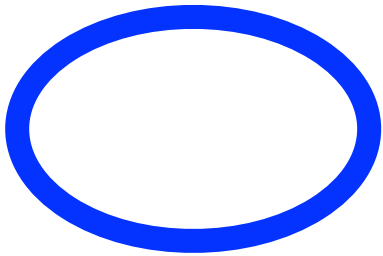
GDP : 7,000

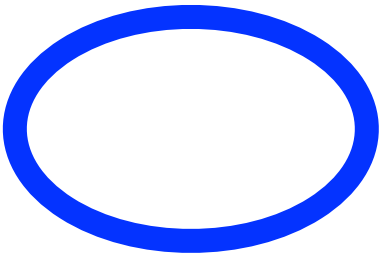


450

$$7,000 - 9,000 = -2,000$$









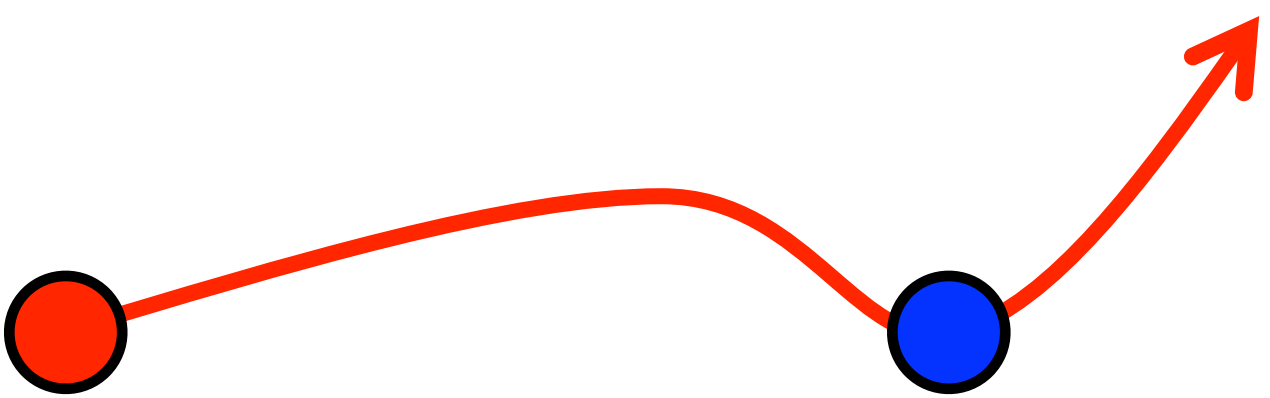
Economy is trying  
to produce beyond  
capacity



Inflationary  
Gap

Zero Unemployment

No excess capacity



Working at full capacity,  
equipment breaks down  
more often: costs rise

Firms hiring workers who  
already have a job (Labor  
shortages): Labor costs rise



Rising costs =  
rising prices

