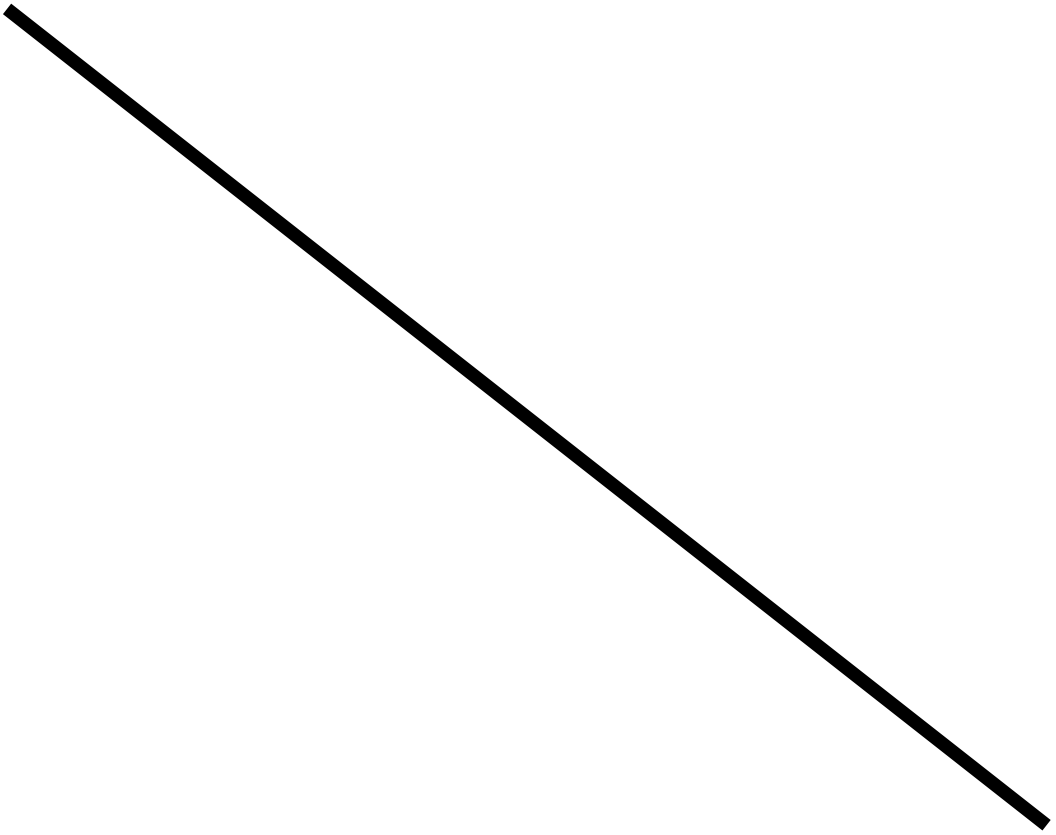


The Self Adjusting Mechanism







AD₀

PO



5,000

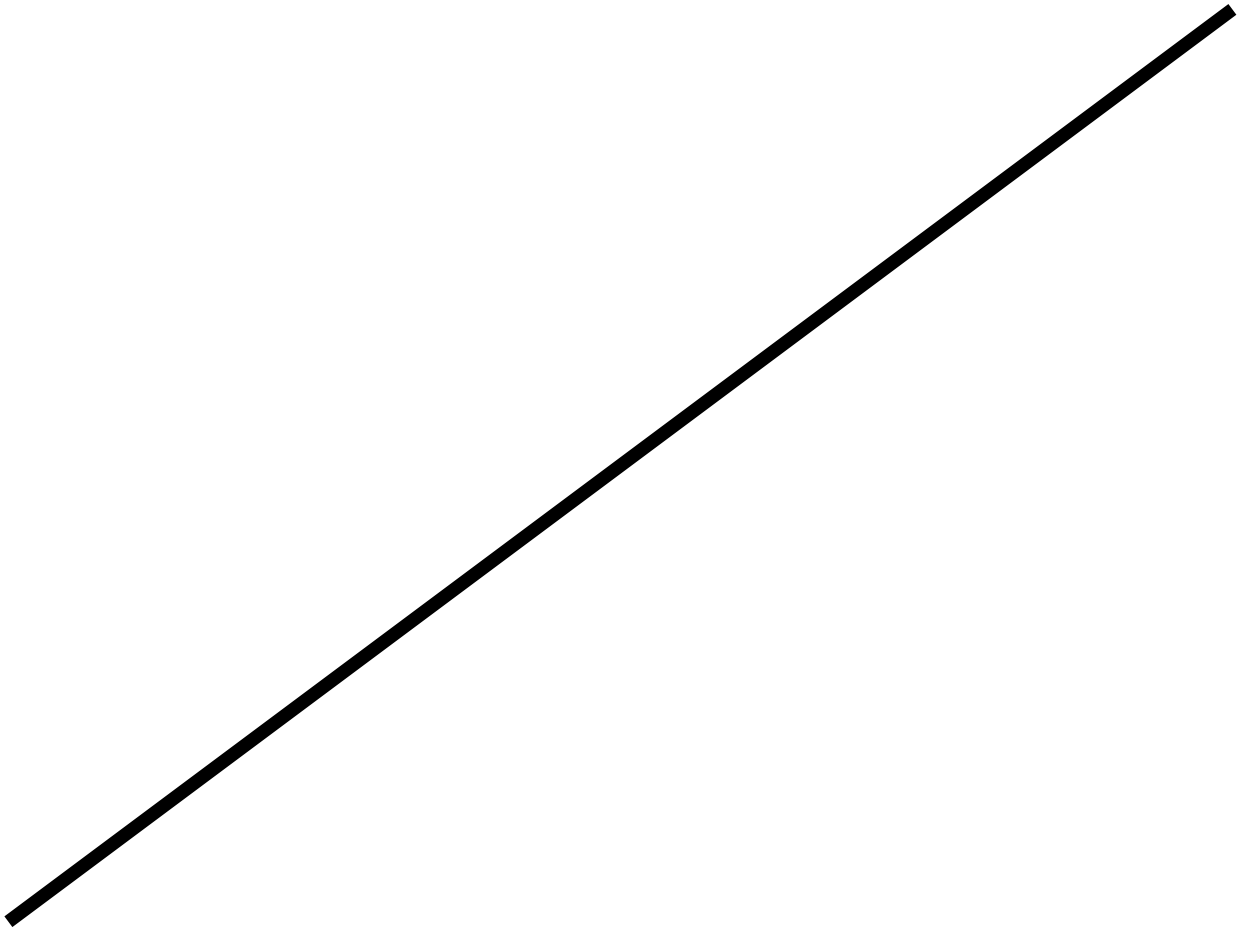
0

4,000

0







AS(W₁)

P

1

Potential

GDP





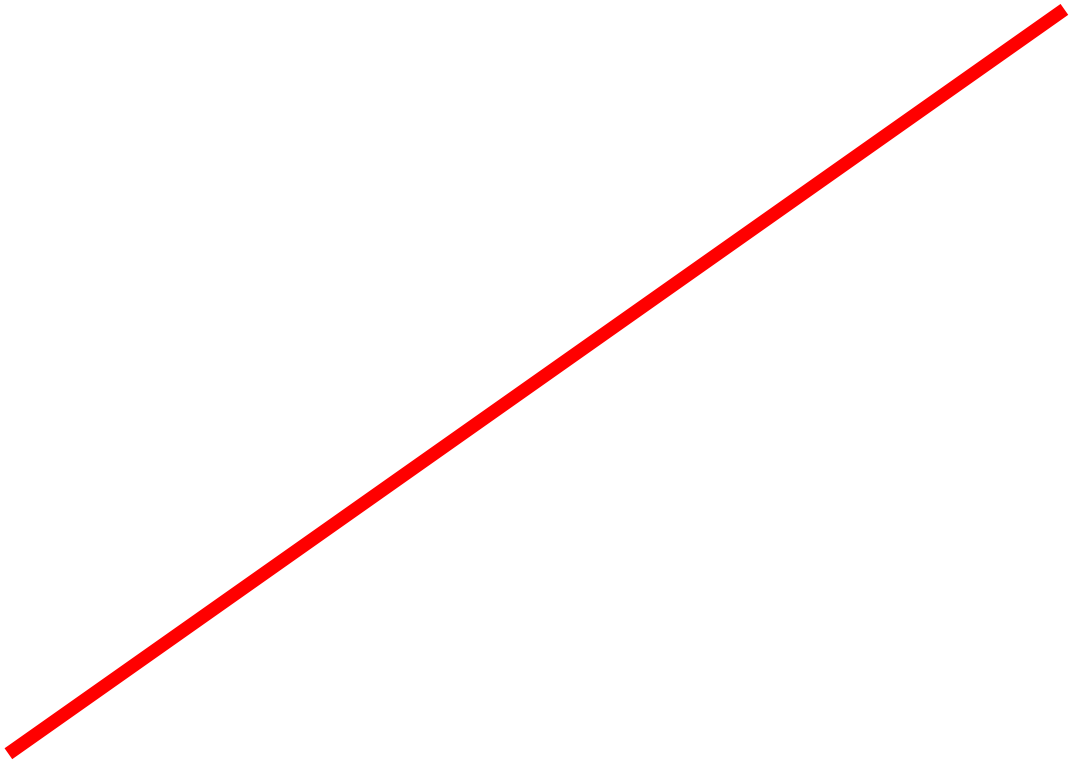
Inflationar y Gap

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



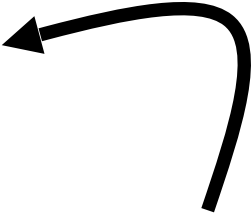
$AS(W_2)$

**Labor market
shortages:**

**Difficult for
firms to hire,
easy for
workers to win
wage increases**

Wages
rise AS
shifts left

Prices rise, AD
decreases gap
closes



**Excessive
spending is
reduced by an
increase in
prices**





**Labor shortages
cause wages to
rise and then,
prices rise**

**Excessive
spending**

