

The decrease in GDP
SMALLER than Shift in AD:





AD

0

Price level

P

O







AD₁

AS

1



Y

O

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

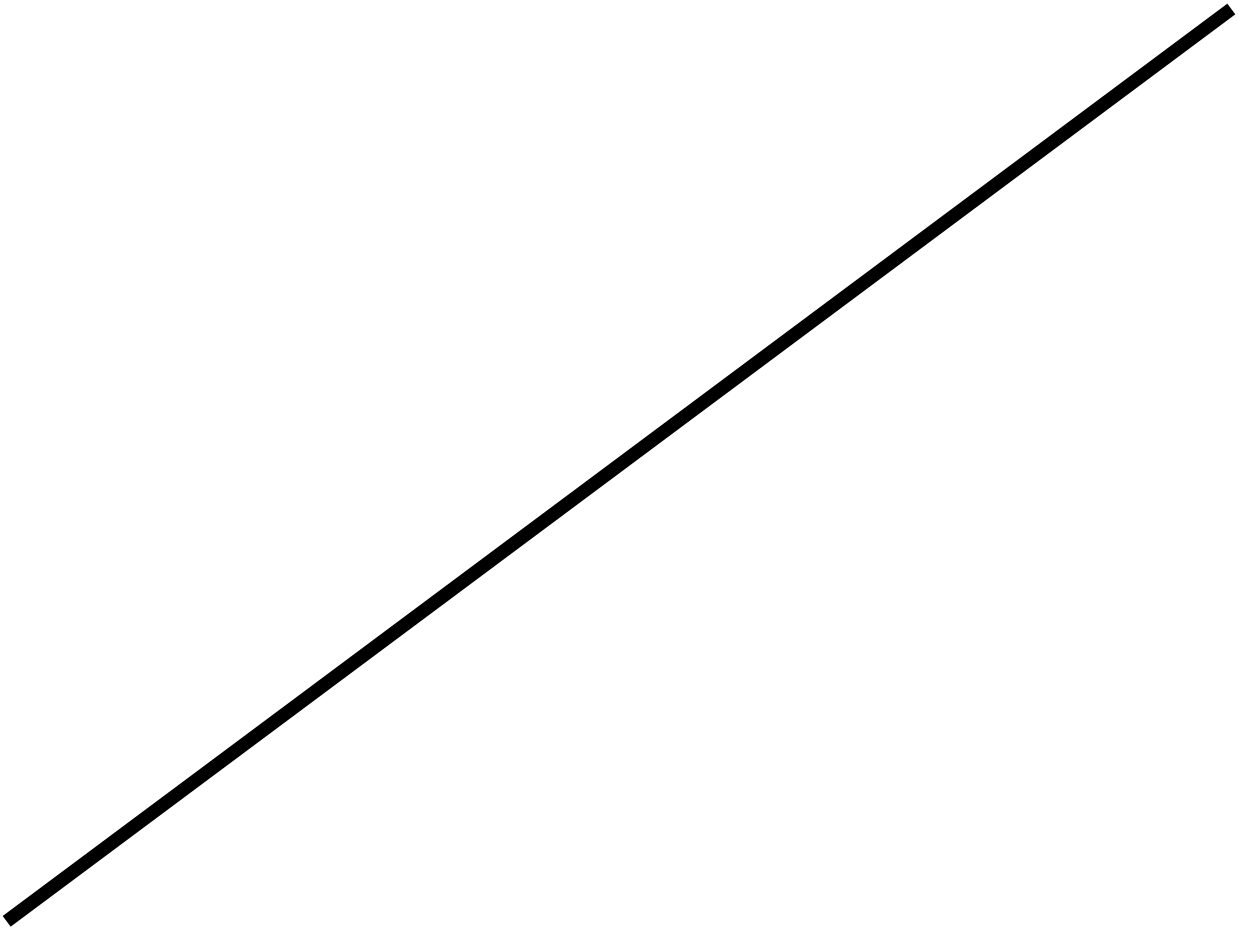
[REDACTED]

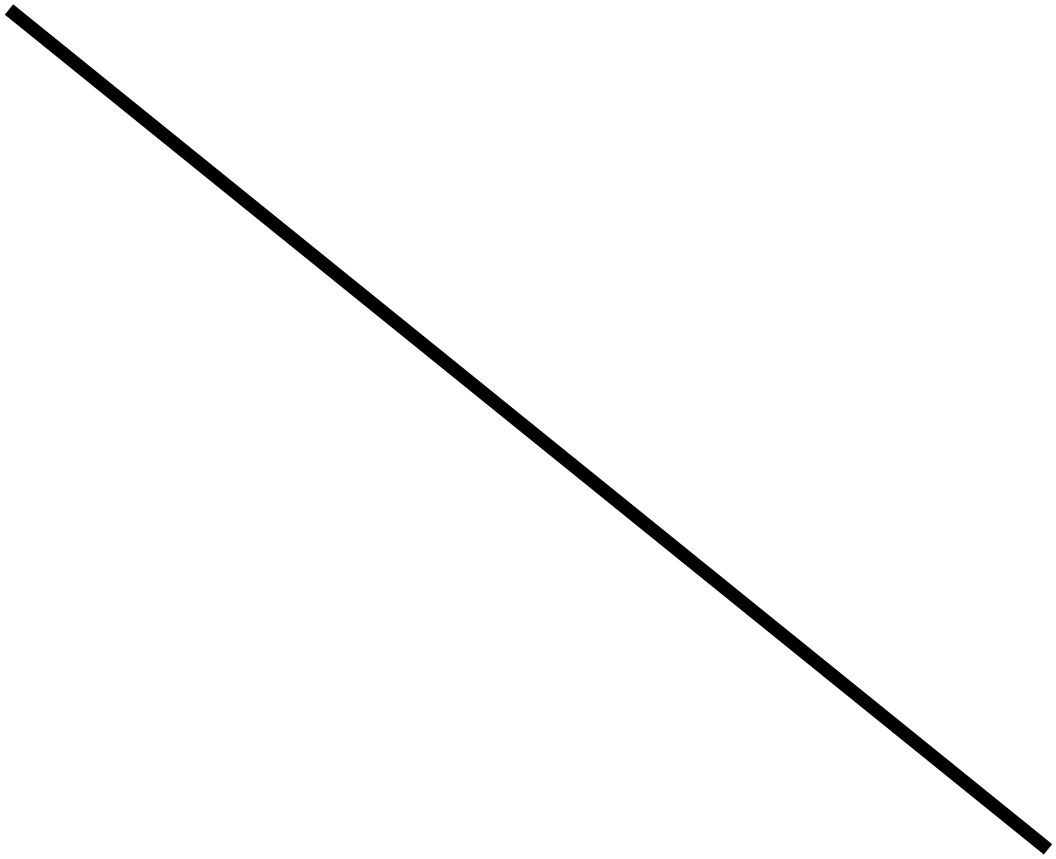
[REDACTED]

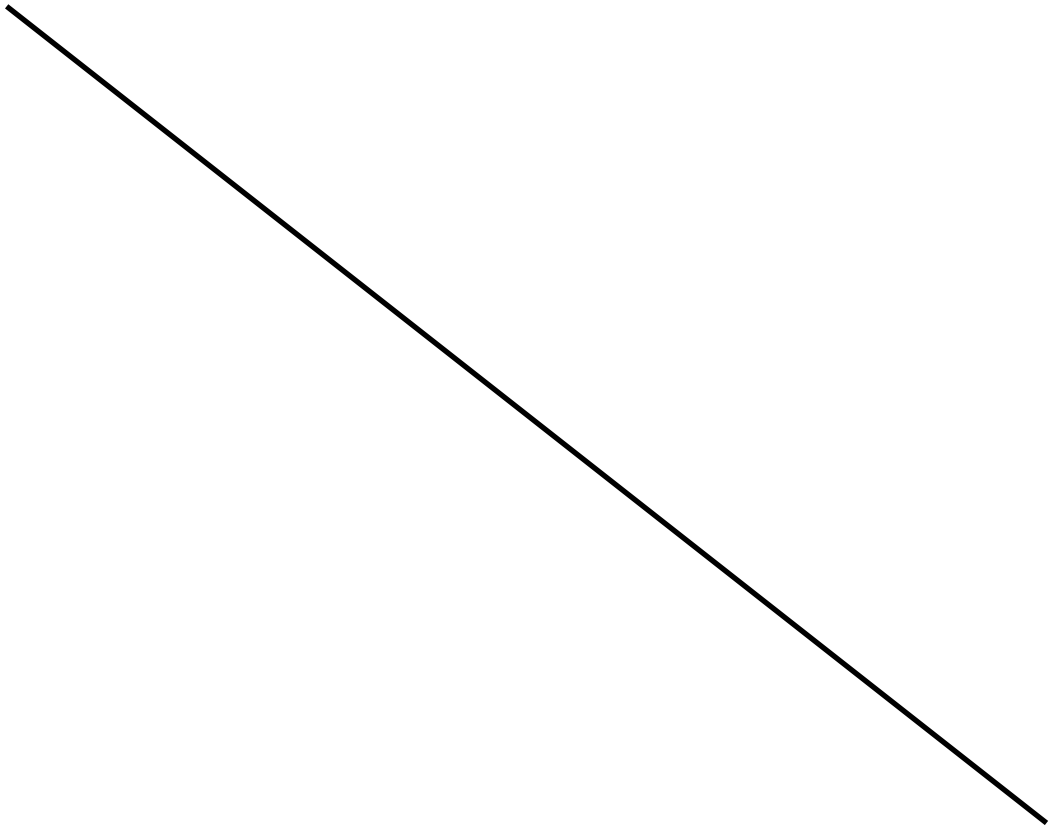
P

1











**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,**





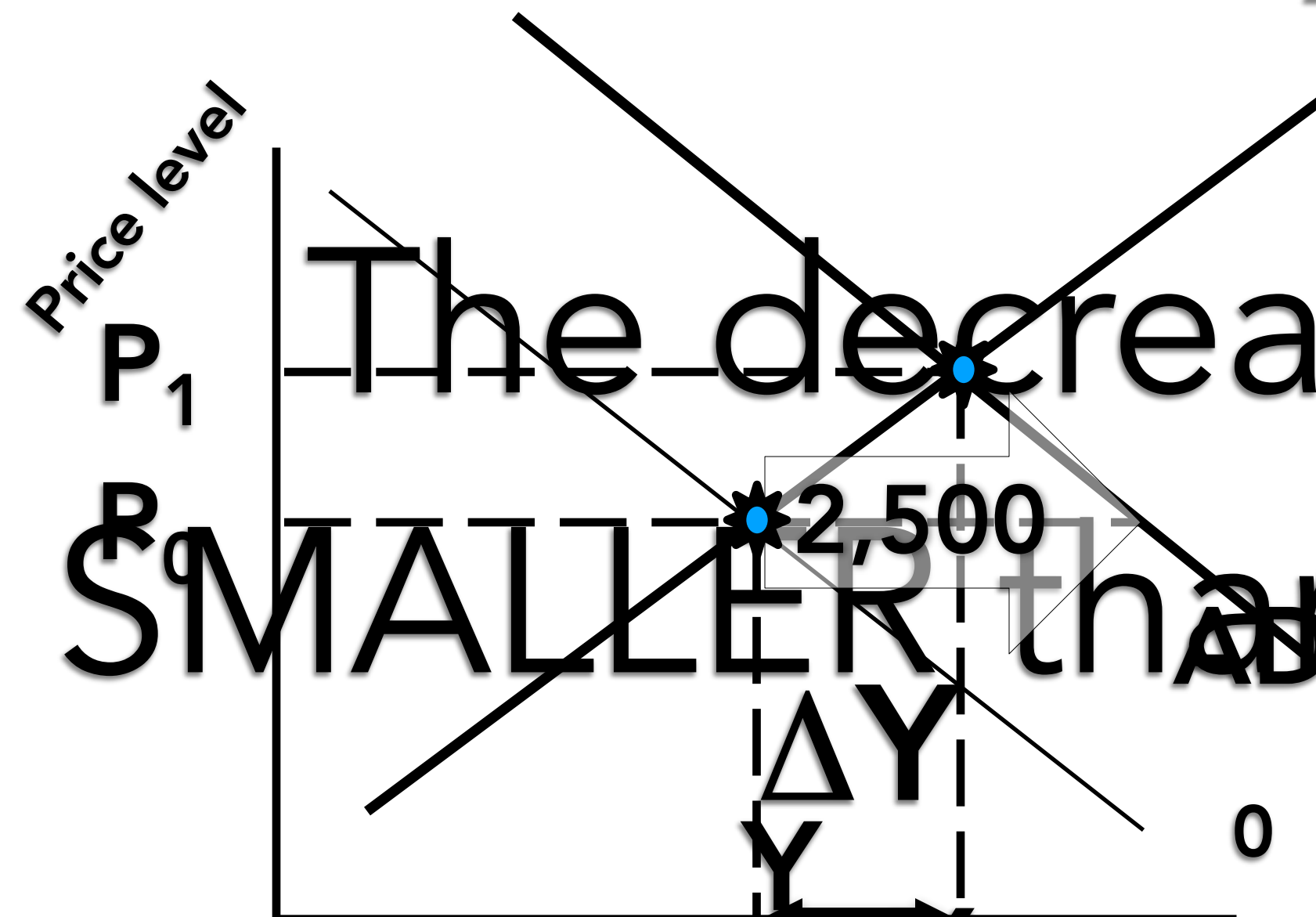
2,500



$AD < AS$

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

