

A

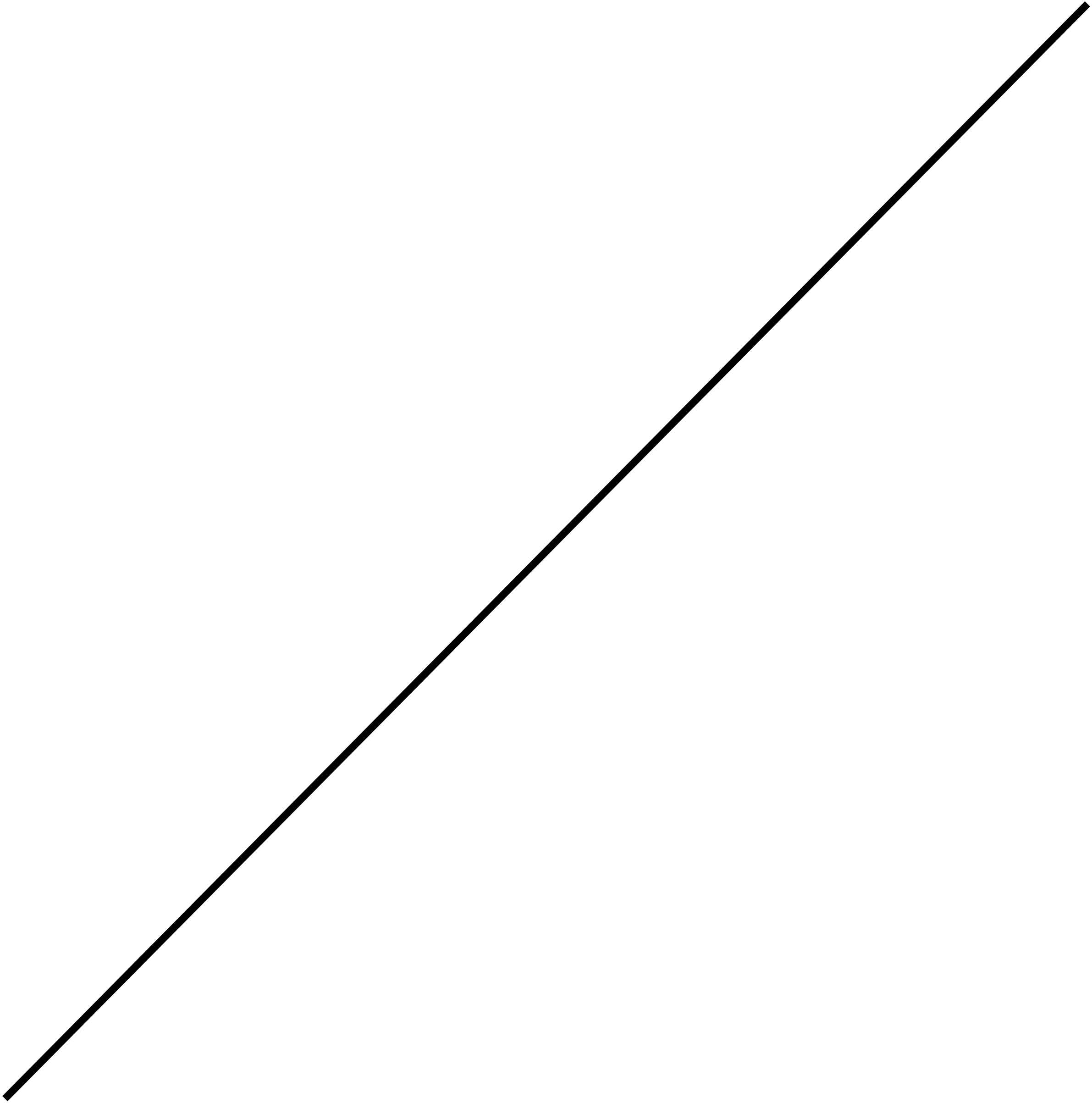
E



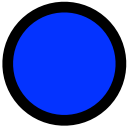
Equilibrium GDP:

9,000





Equilibrium



A

E

Potential GDP



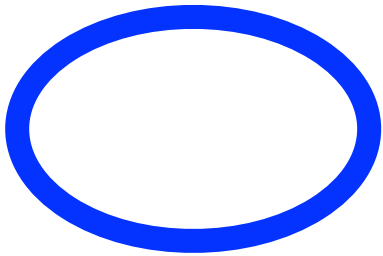
Potential

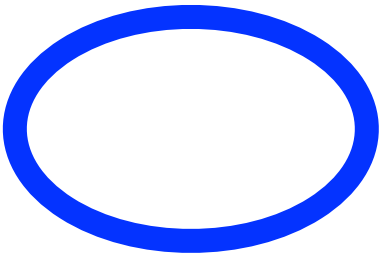
GDP : 7,000



450

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







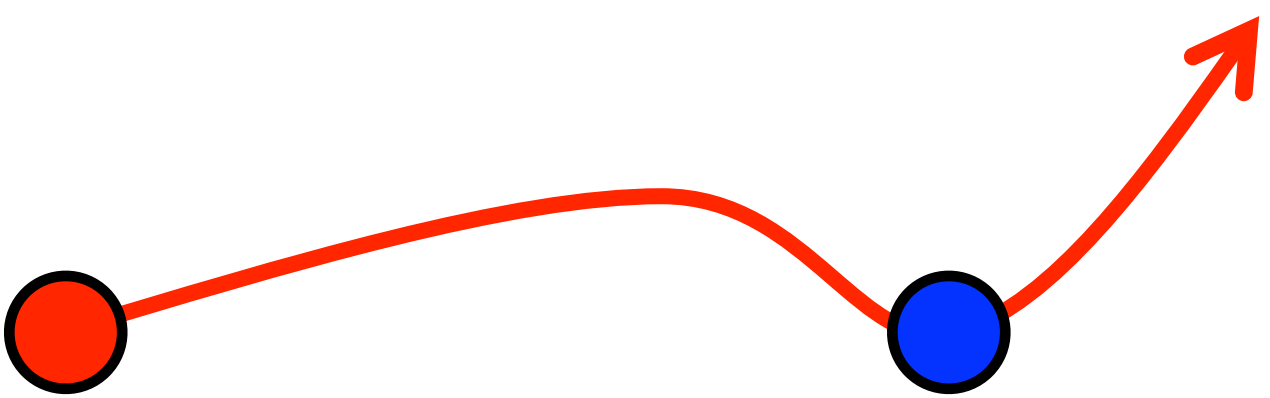
Economy is trying
to produce **beyond**
capacity



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

