

AE_0

GDP_0

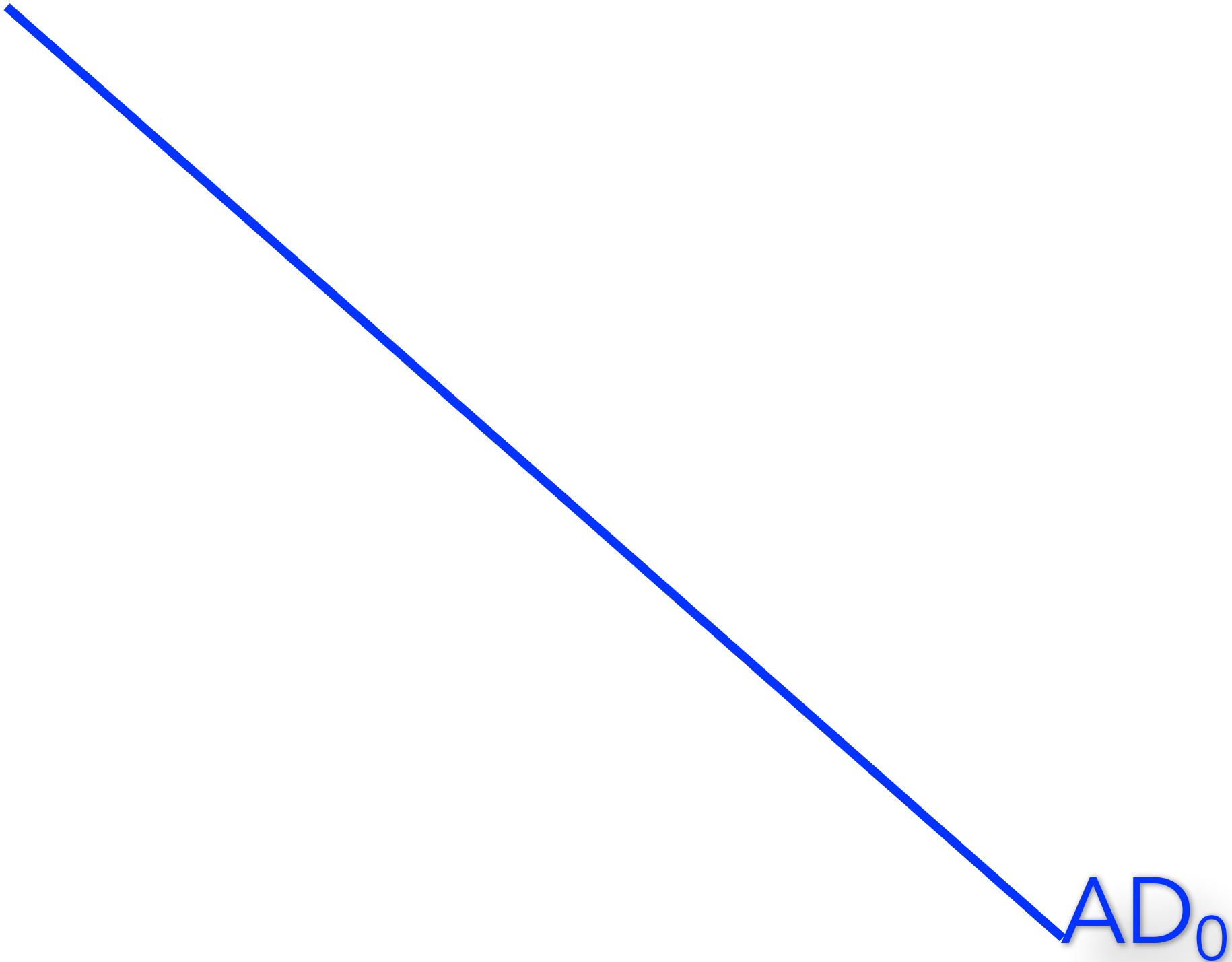
At Potential GDP



Price Level
(CPI)

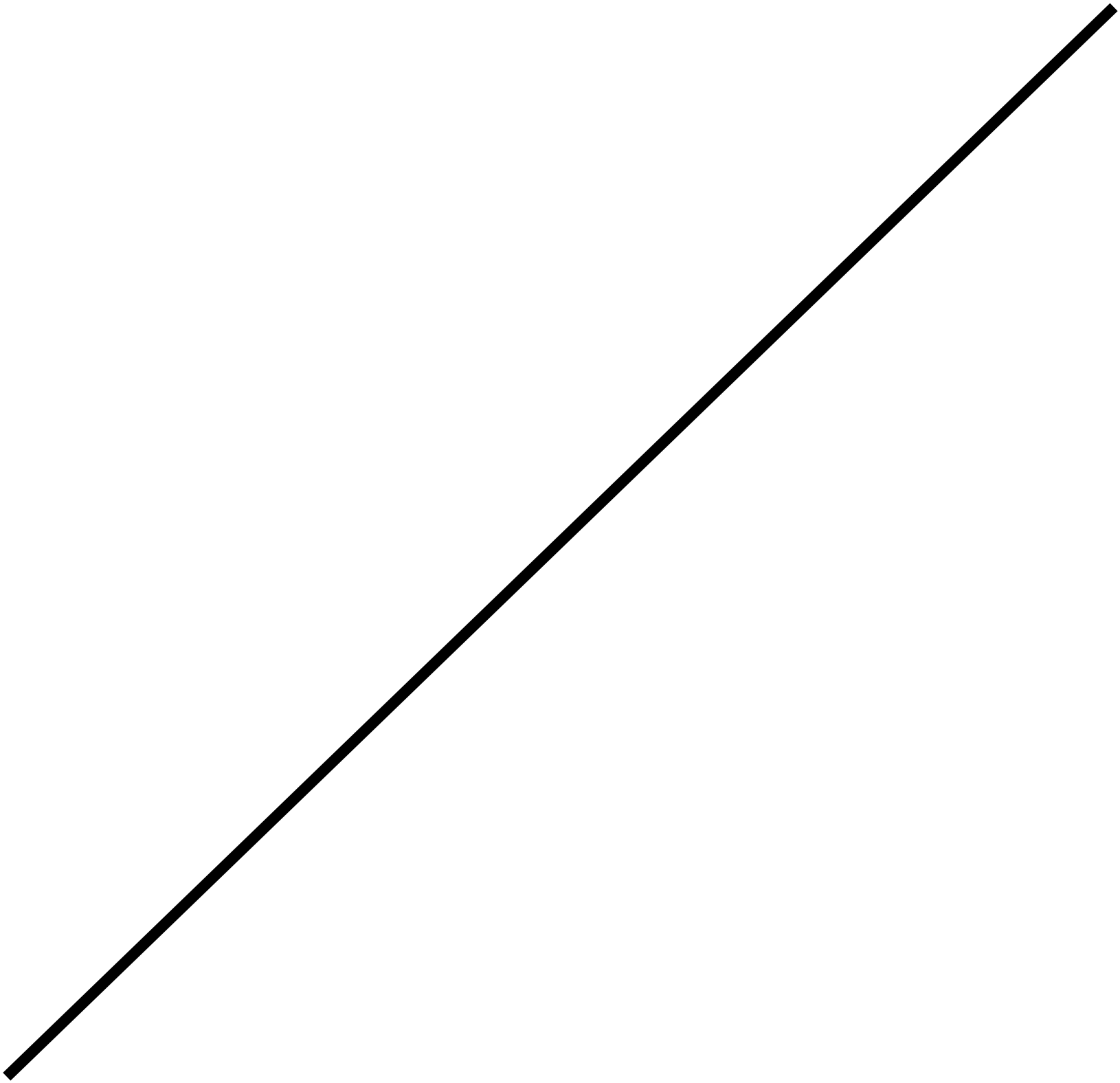






Po-----

AS₀



GDP₀

At Potential GDP



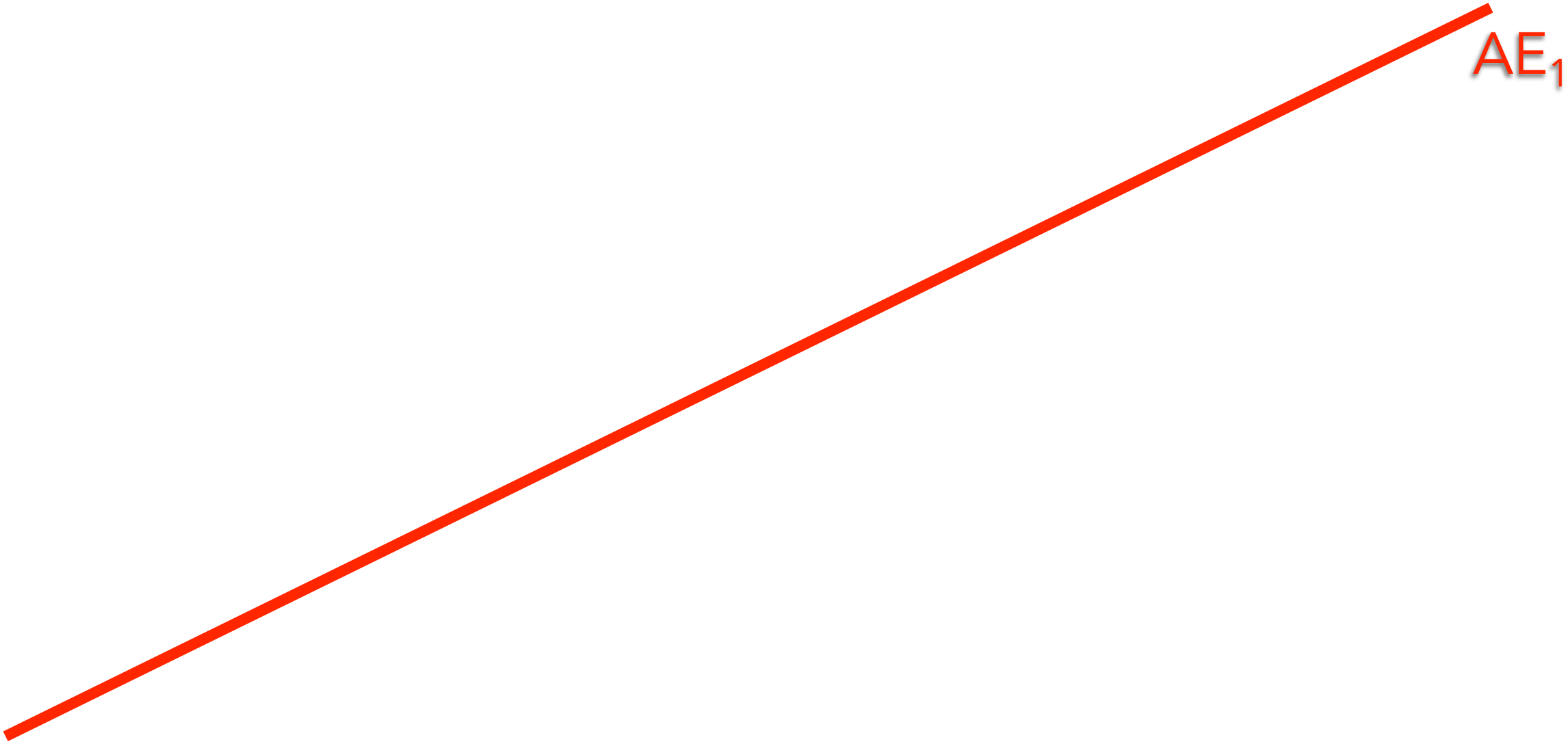
Inflationary Gap



Inflationary Gap

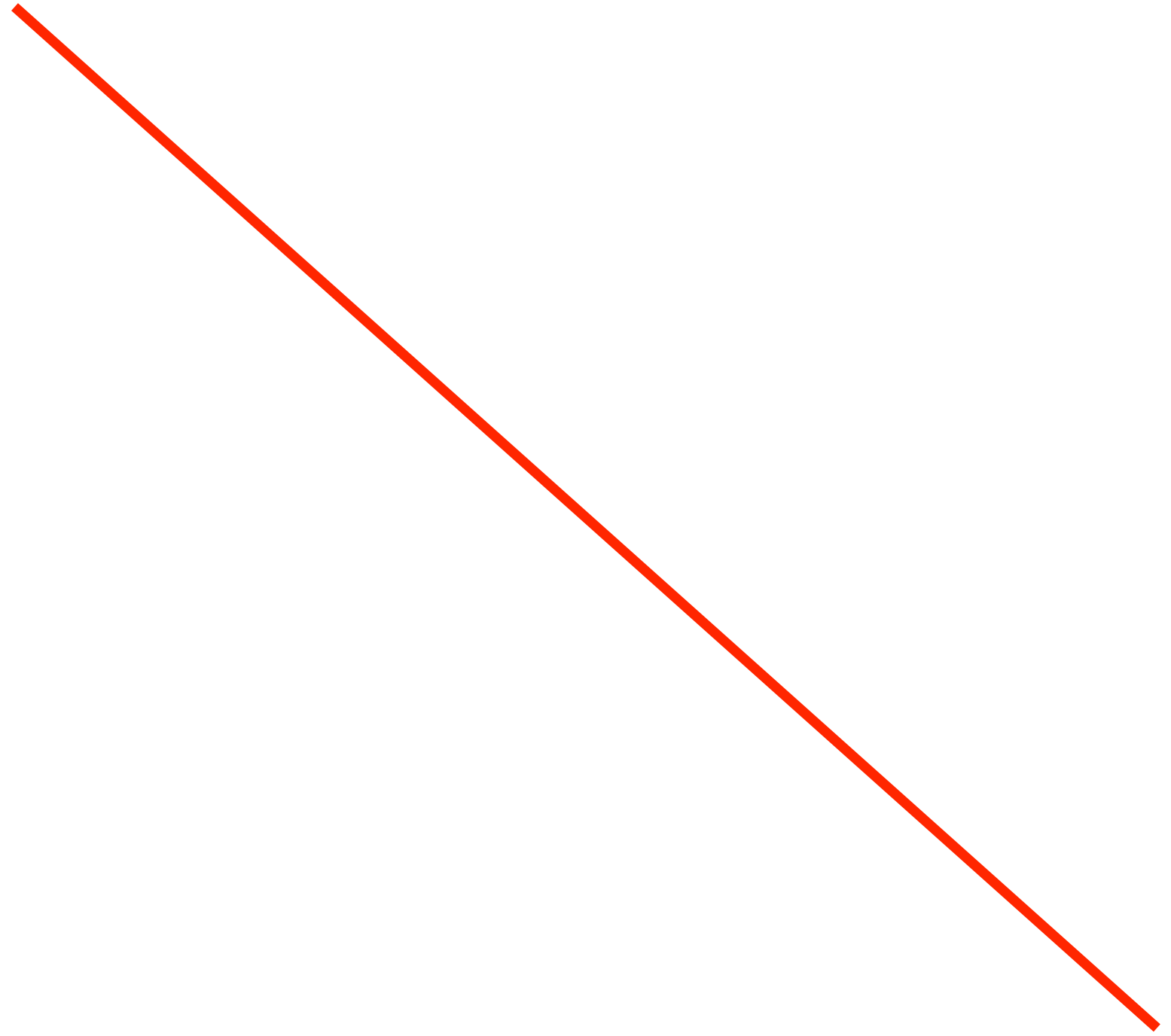


To close an Inflationary Gap, Aggregate Expenditures
and Aggregate Demand must decrease



Decrease in AD



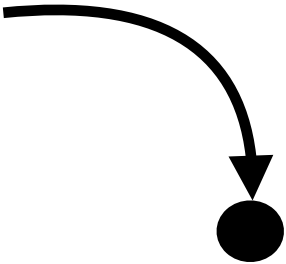


AD₁

P₁



GDP₁



As prices drop
AD increase

To close an Inflationary Gap, Aggregate Expenditures and Aggregate Demand must **decrease**

