

A

E

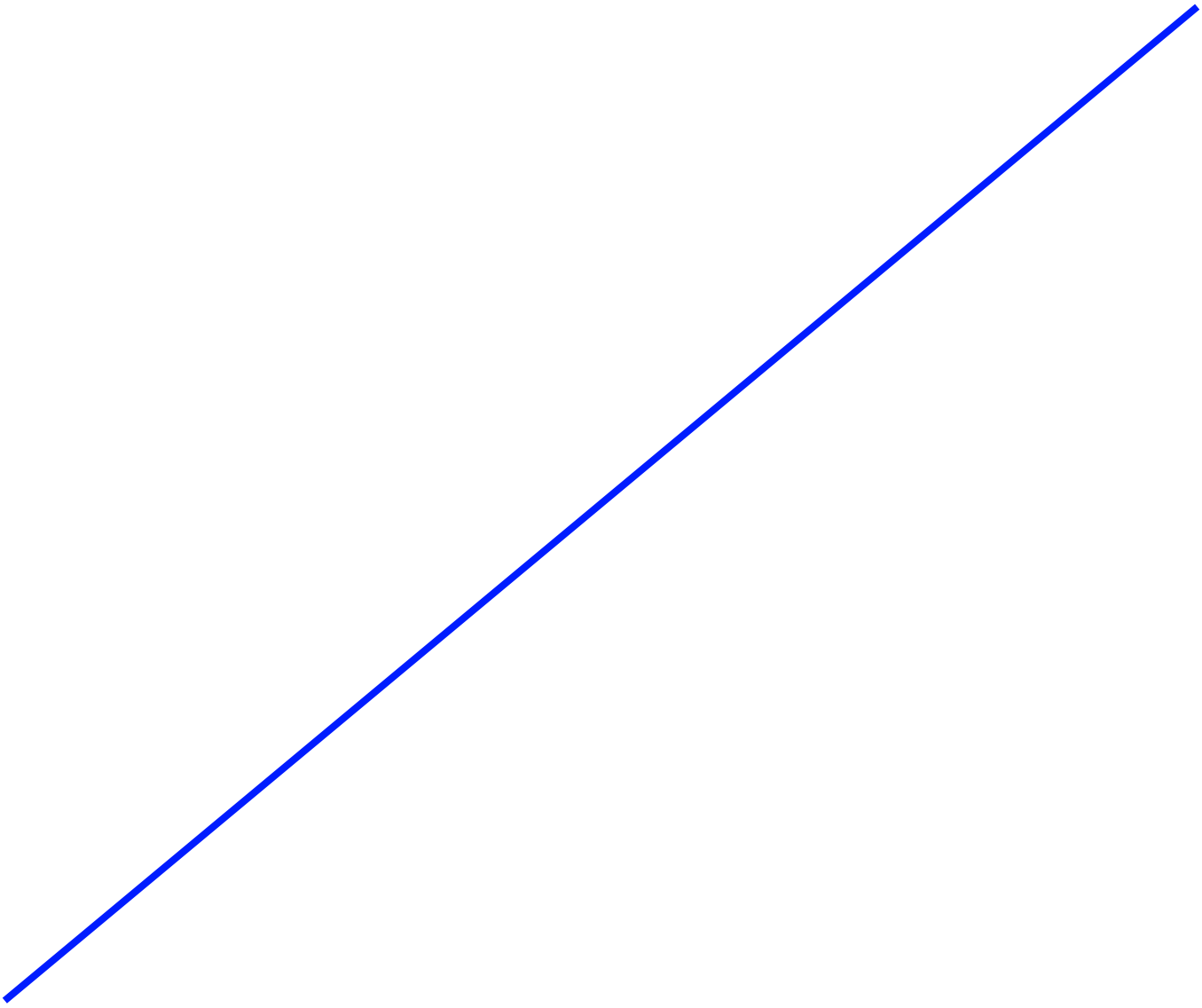


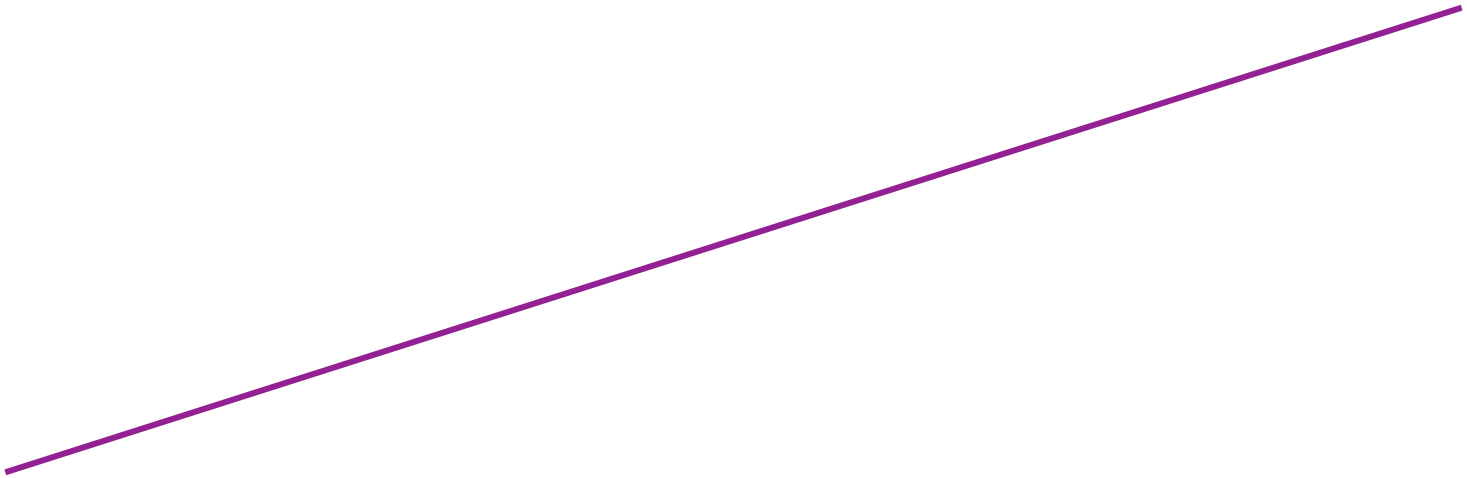


AE

Total
Production







Equilibrium Y

AE

=

Y*



AE (above)

$Y(P)$ production)

AE(below)

Production Y (higher)



For any output level
below equilibrium

For any output level
above equilibrium



Inventories
increase

Inventories
drop



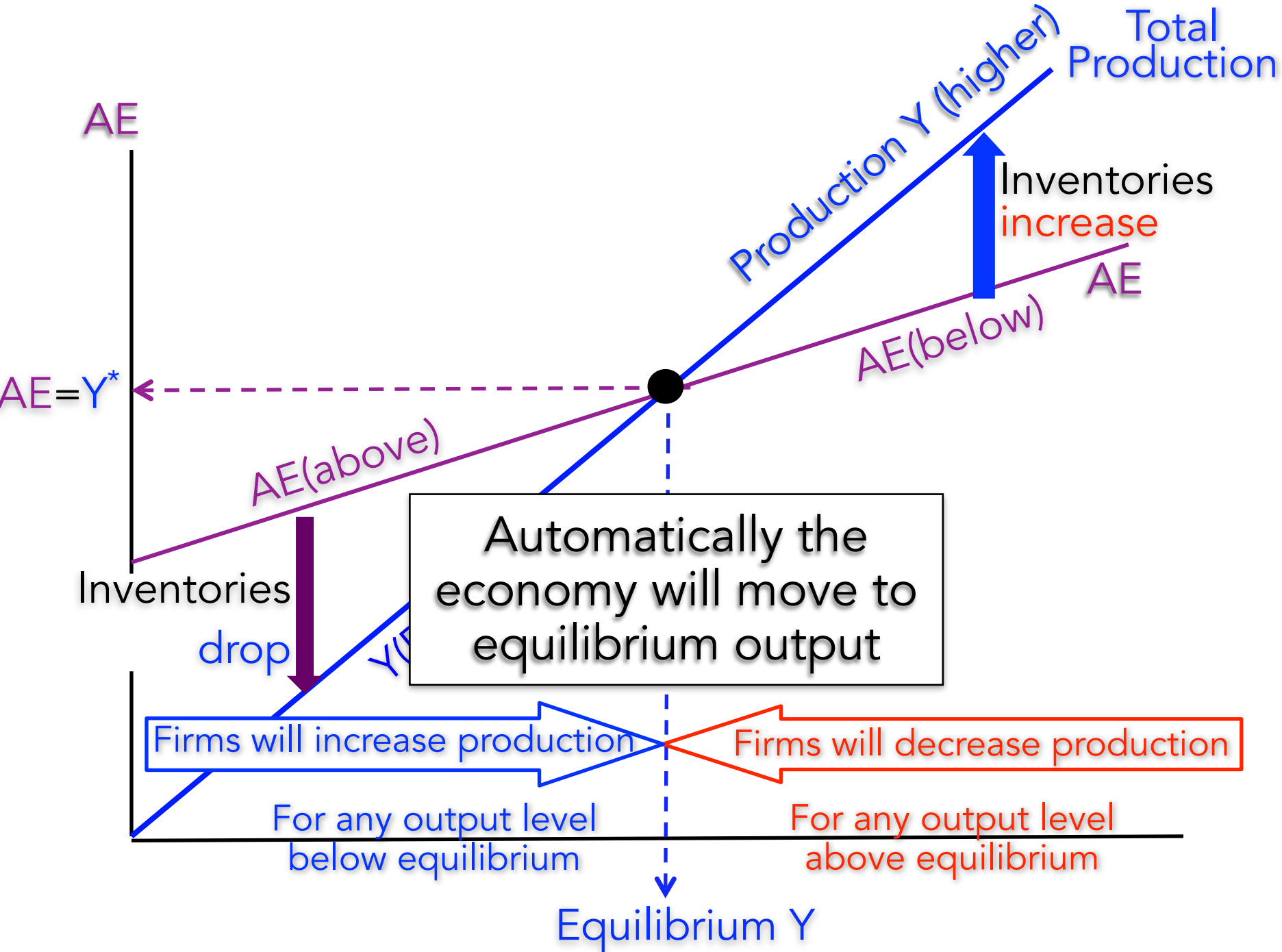


Firms will decrease production



Firms will increase production

Automatically the
economy will move to
equilibrium output



An Example with numbers....