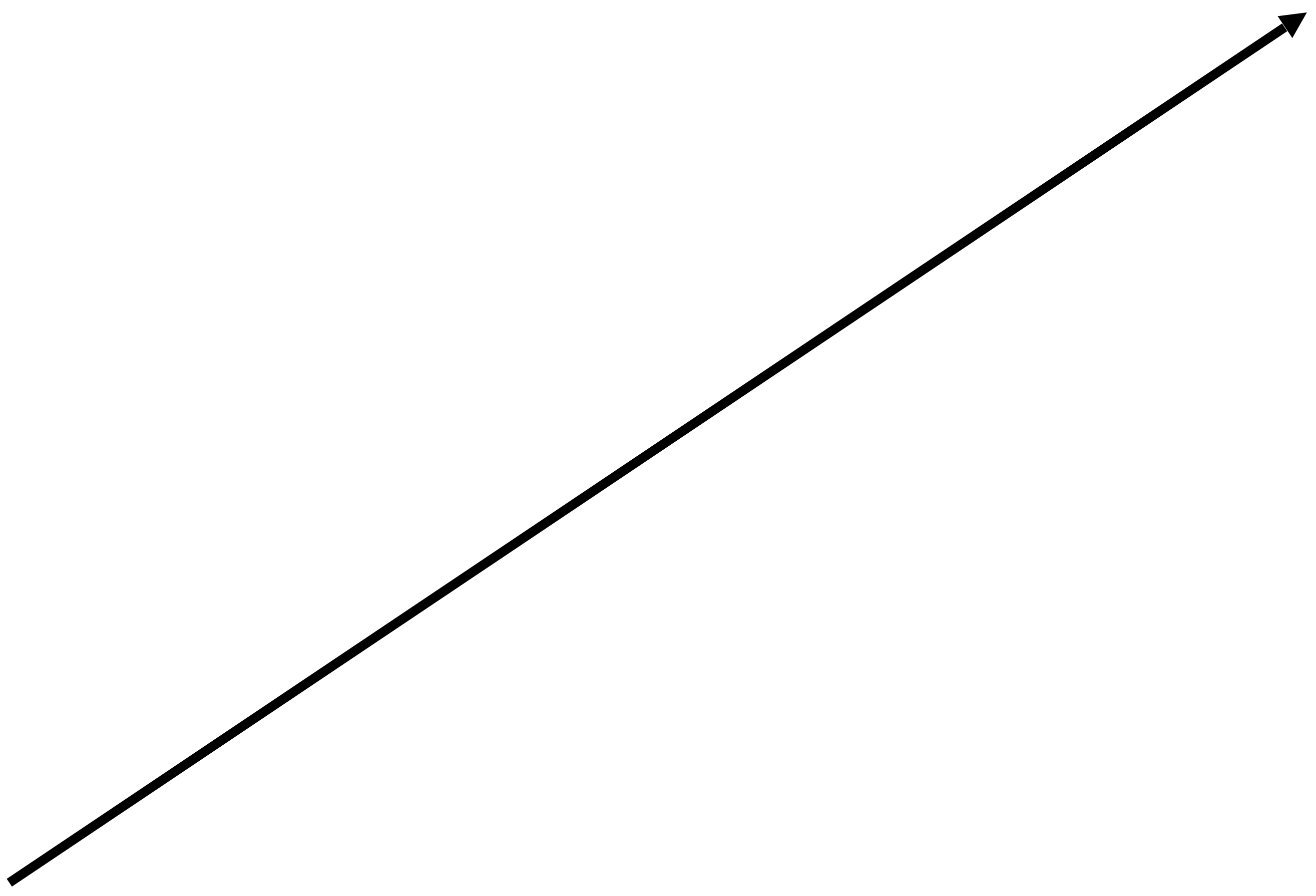




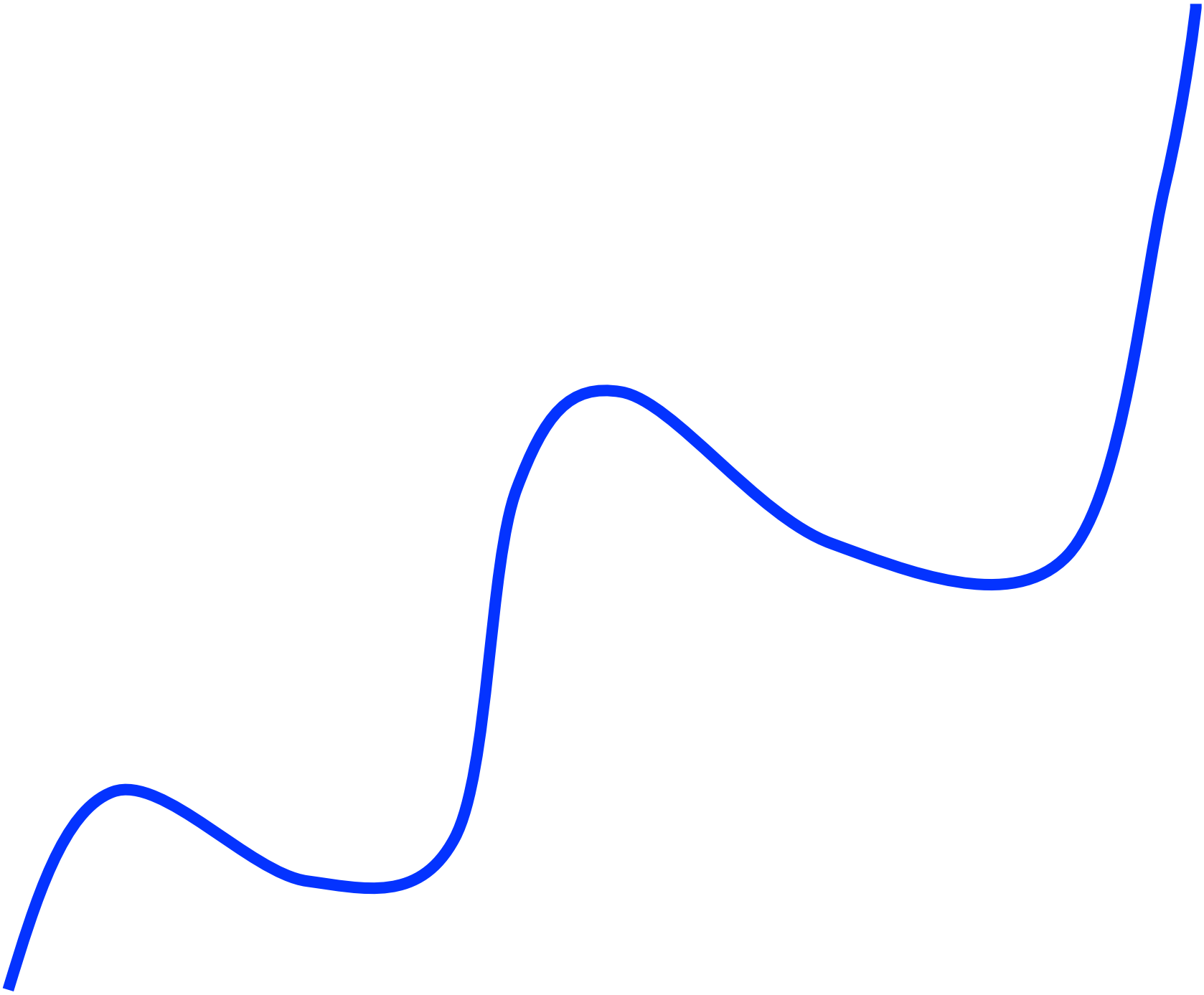
Some years,
we produce at
potential

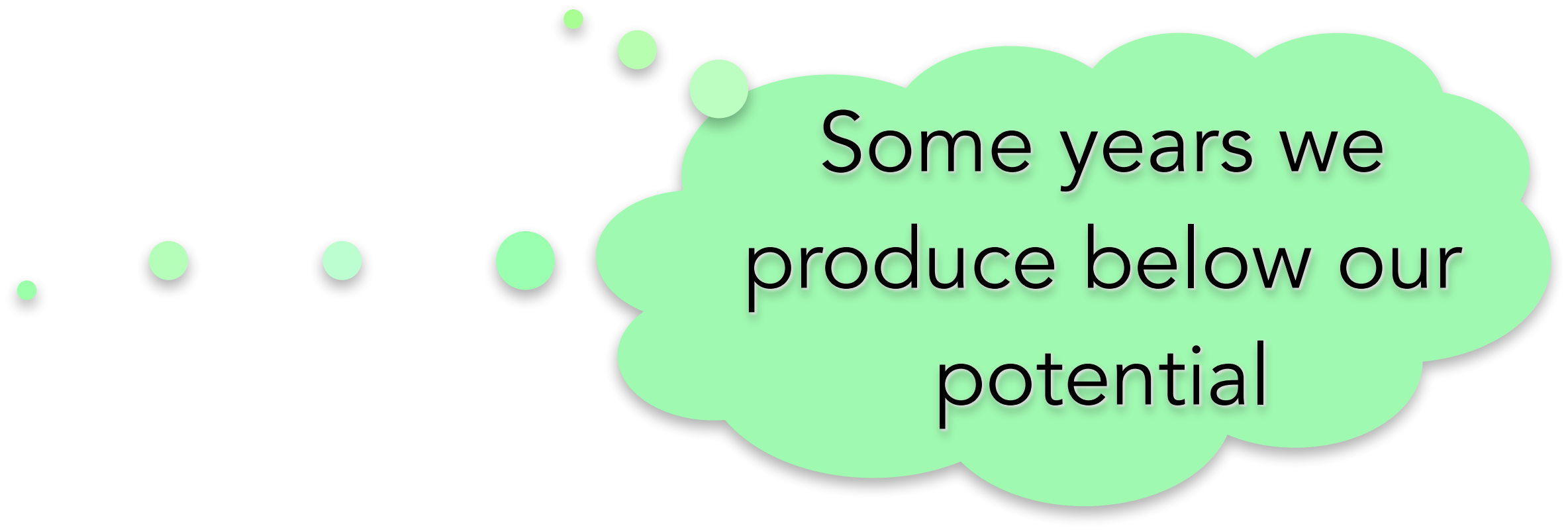




Total Production







Some years we
produce below our
potential

























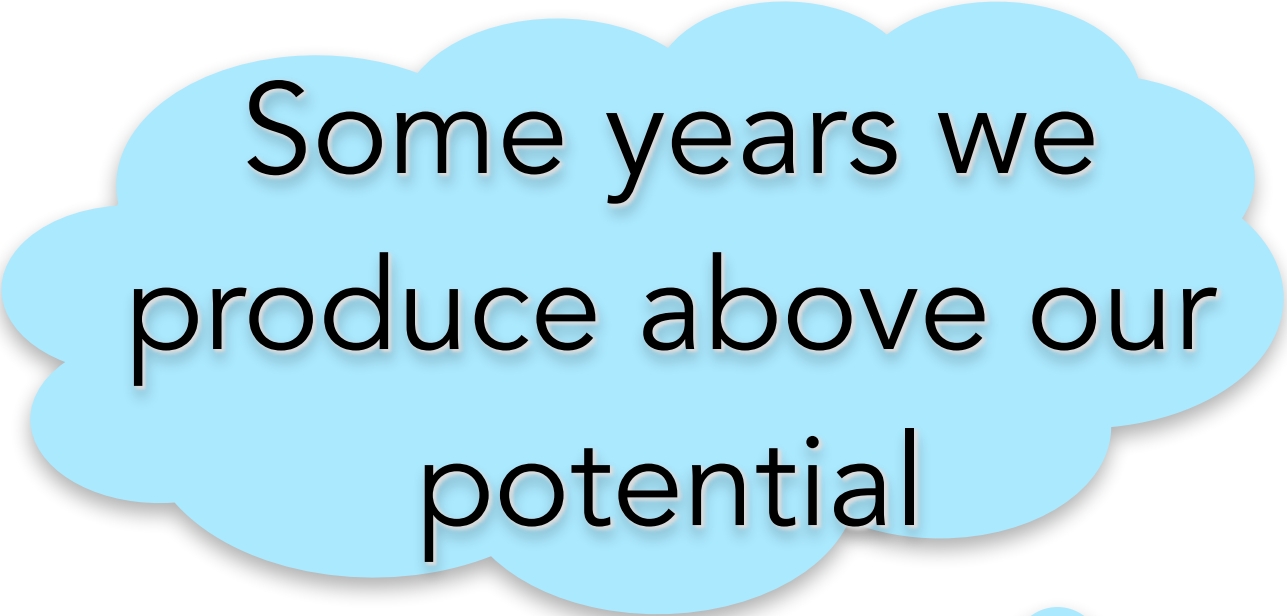
Potential GDP

Each year, population grows: there are more workers

Each year, we build more factories and add more equipment: larger stock of capital

Each year, with more
workers and larger stock of
capital we can (potentially)
produce more

This line represents how much **could**
be produced if Unemployment was
zero and excess capacity was **zero**



Some years we
produce above our
potential





This line represents how much
was **actually** produced during
a given year

Potential GDP

Some years we produce above our potential

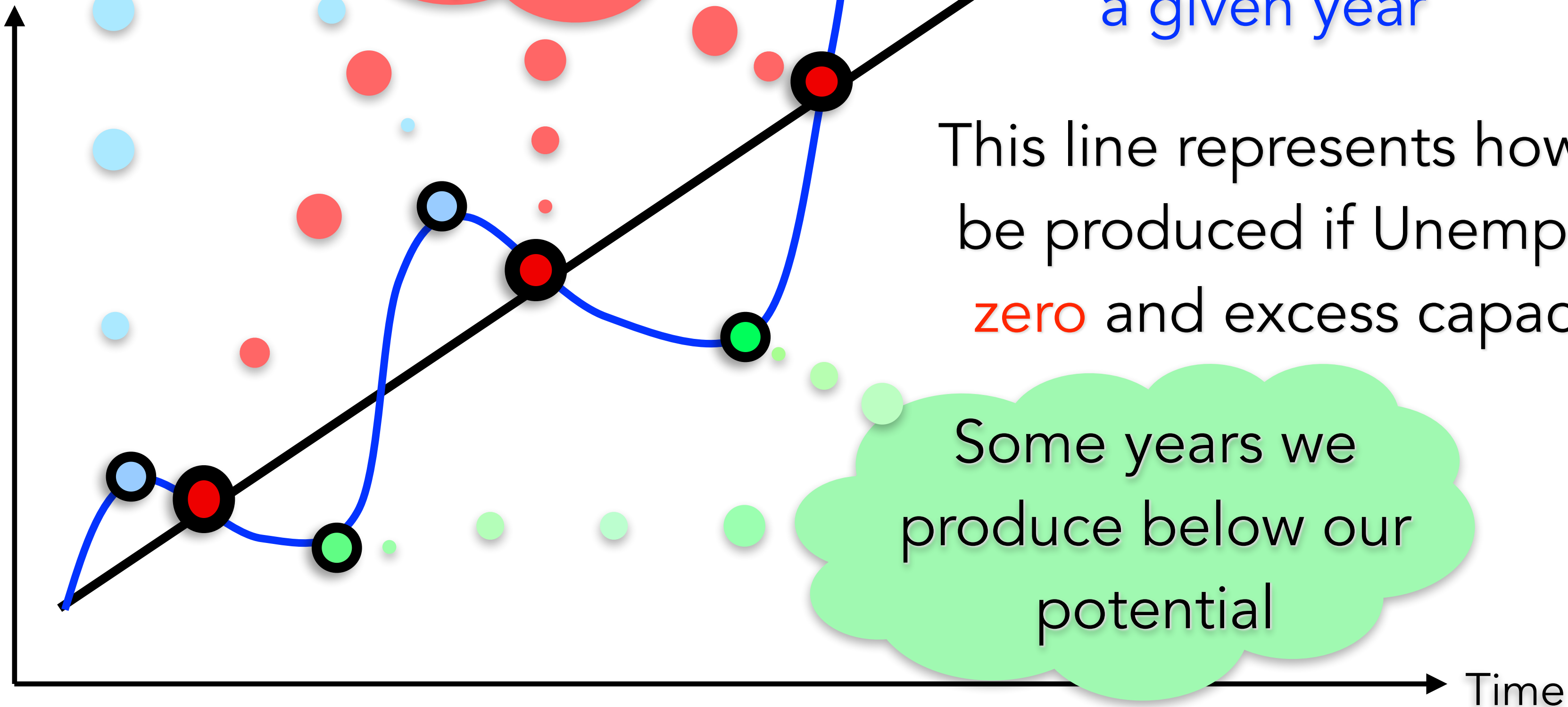
Some years, we produce at potential

This line represents how much was **actually** produced during a given year

This line represents how much **could** be produced if Unemployment was **zero** and excess capacity was **zero**

Some years we produce below our potential

Total Production



Each year, population grows: there are more workers

Each year, we build more factories and add more equipment: larger stock of capital

$$\text{Potential GDP} = \text{Hours worked} \times \text{Labor Productivity} \\ \times \text{Labor Force}$$