AD

AS

Determining Prices and Output: Equilibrium

Price Level

(CPI)

Real GDP

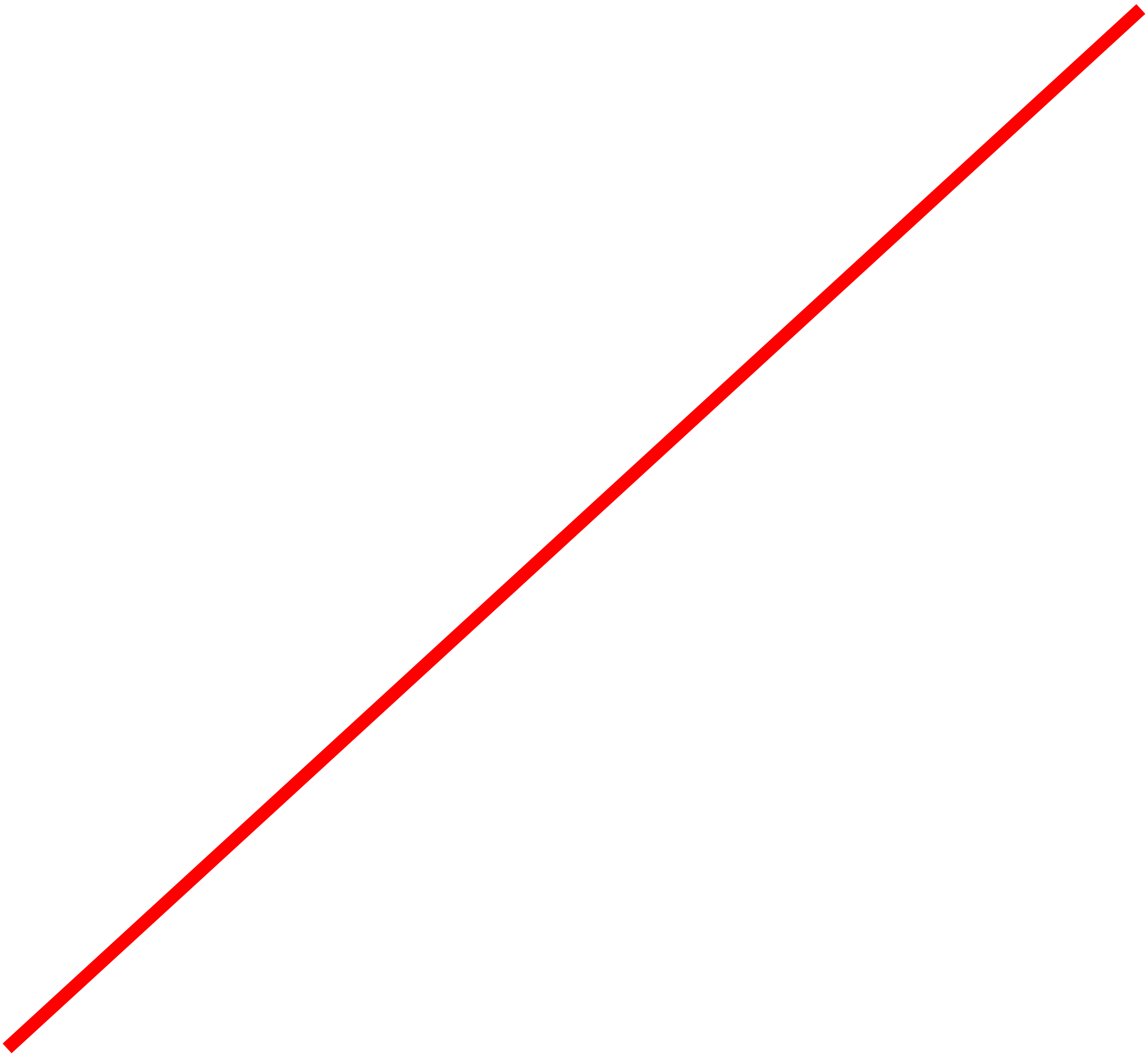
Production (AS) > Total Sales (AD)

Inventories rise

For any Price Level ABOVE Pe

Aggregate Supply > Aggregate Demand

Firms decrease production and prices



Once prices drop to this level

Aggregate Supply = Aggregate Demand

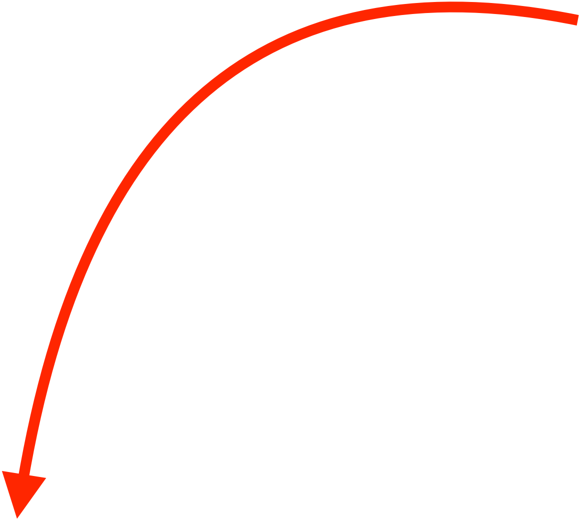
Inventories do not change

The economy is at equilibrium

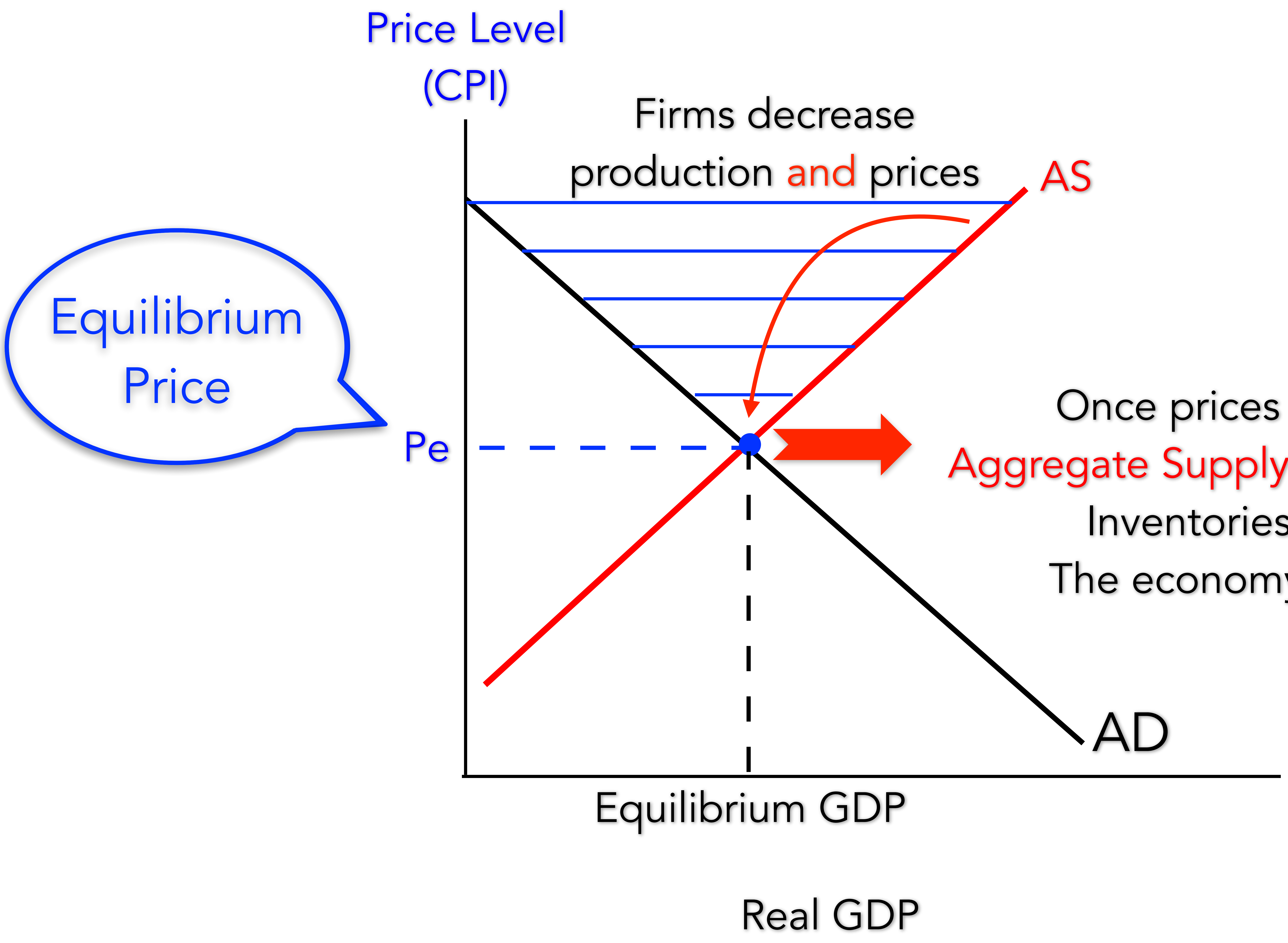
Pe – – – – – –

Equilibrium Price

Equilibrium GDP



Determining Prices and Output: Equilibrium



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Determining Prices and Output: Equilibrium