

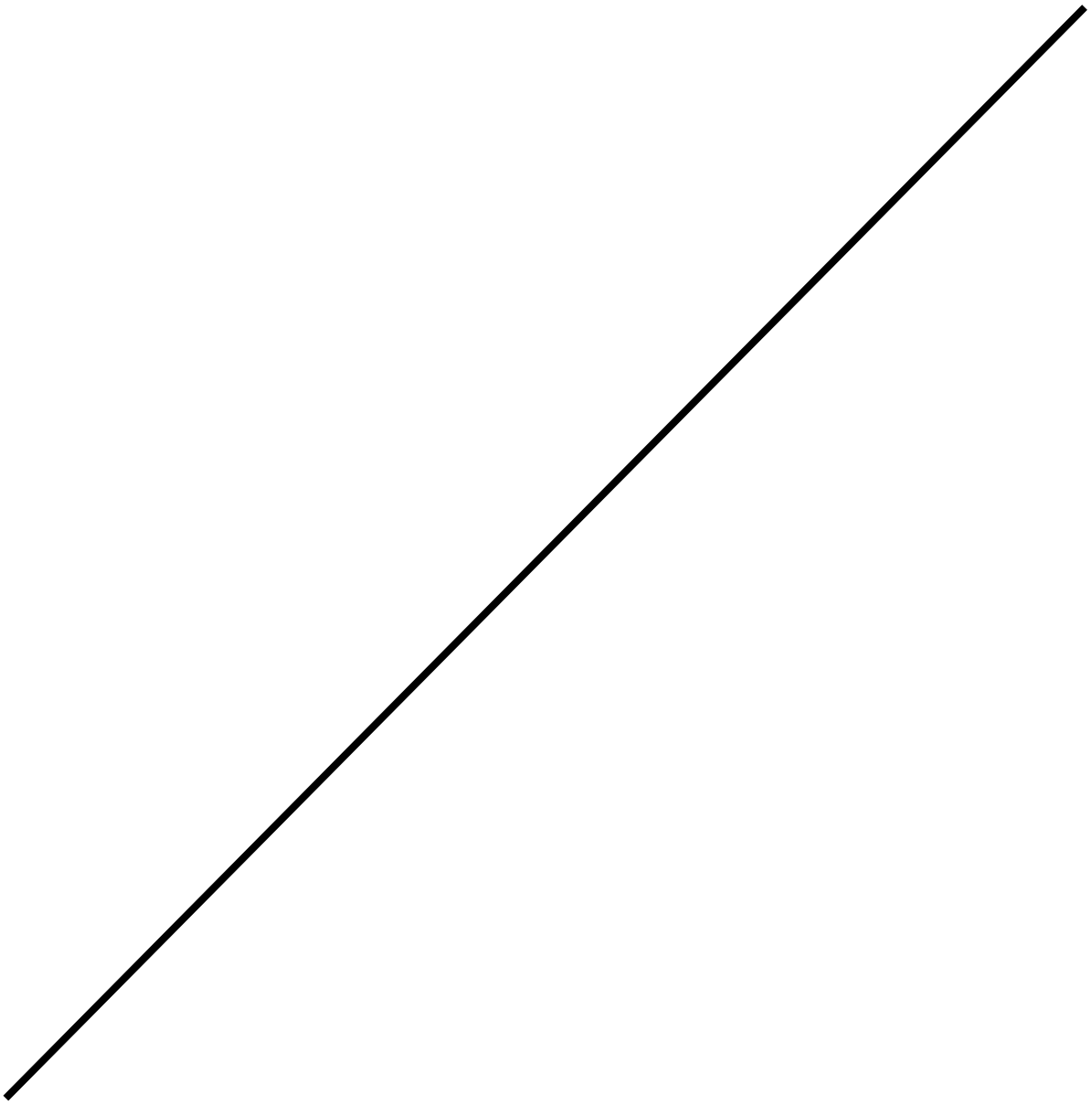
AE



Equilibrium GDP:

9,000





Equilibrium



A

E

Potential GDP



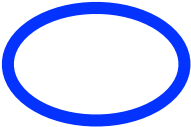
Potential

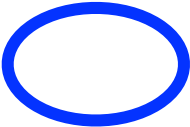
GDP : 7,000




450

7,000-9,000 = 2,000





A red speech bubble with a tail pointing towards the bottom-left corner. The bubble contains the text "Economy is trying to produce beyond capacity". The words "Economy is trying" and "capacity" are in blue, while "to produce" and "beyond" are in red.

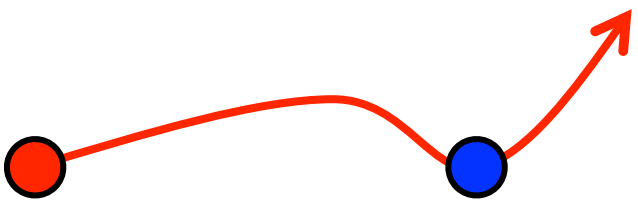
Economy is trying
to produce beyond
capacity



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

