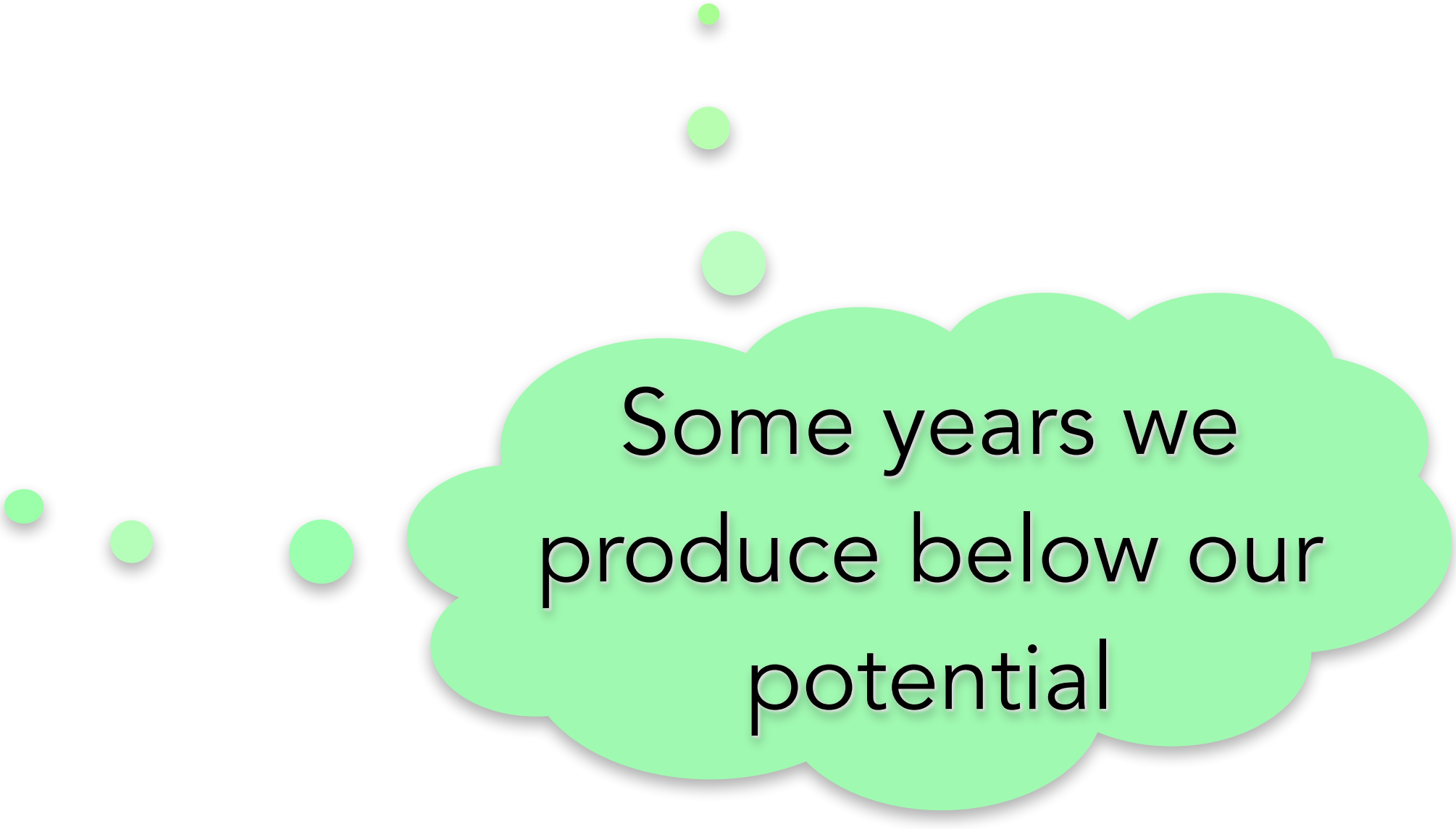


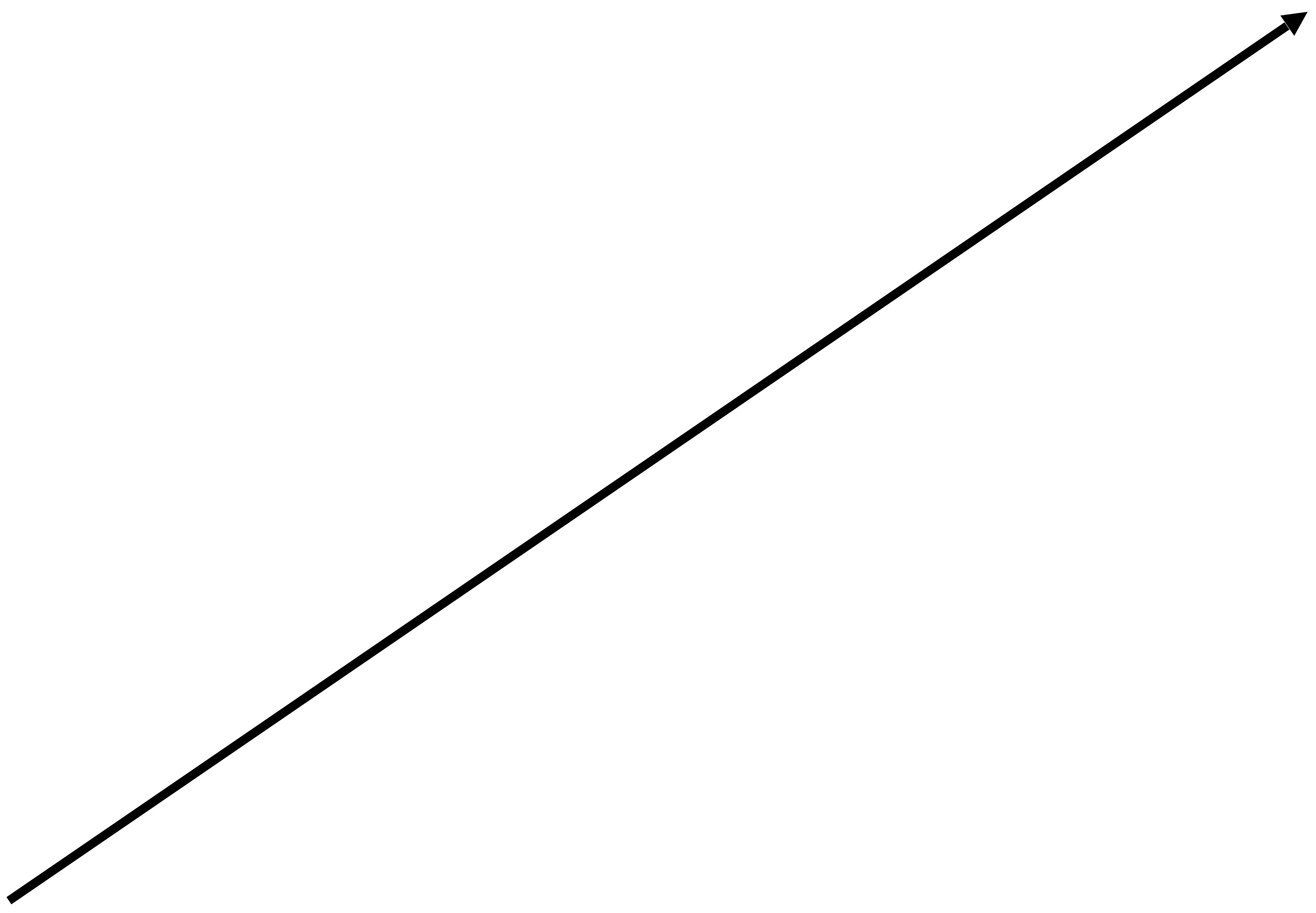



Total Production





Some years we
produce below our
potential





Some years,
we produce at
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

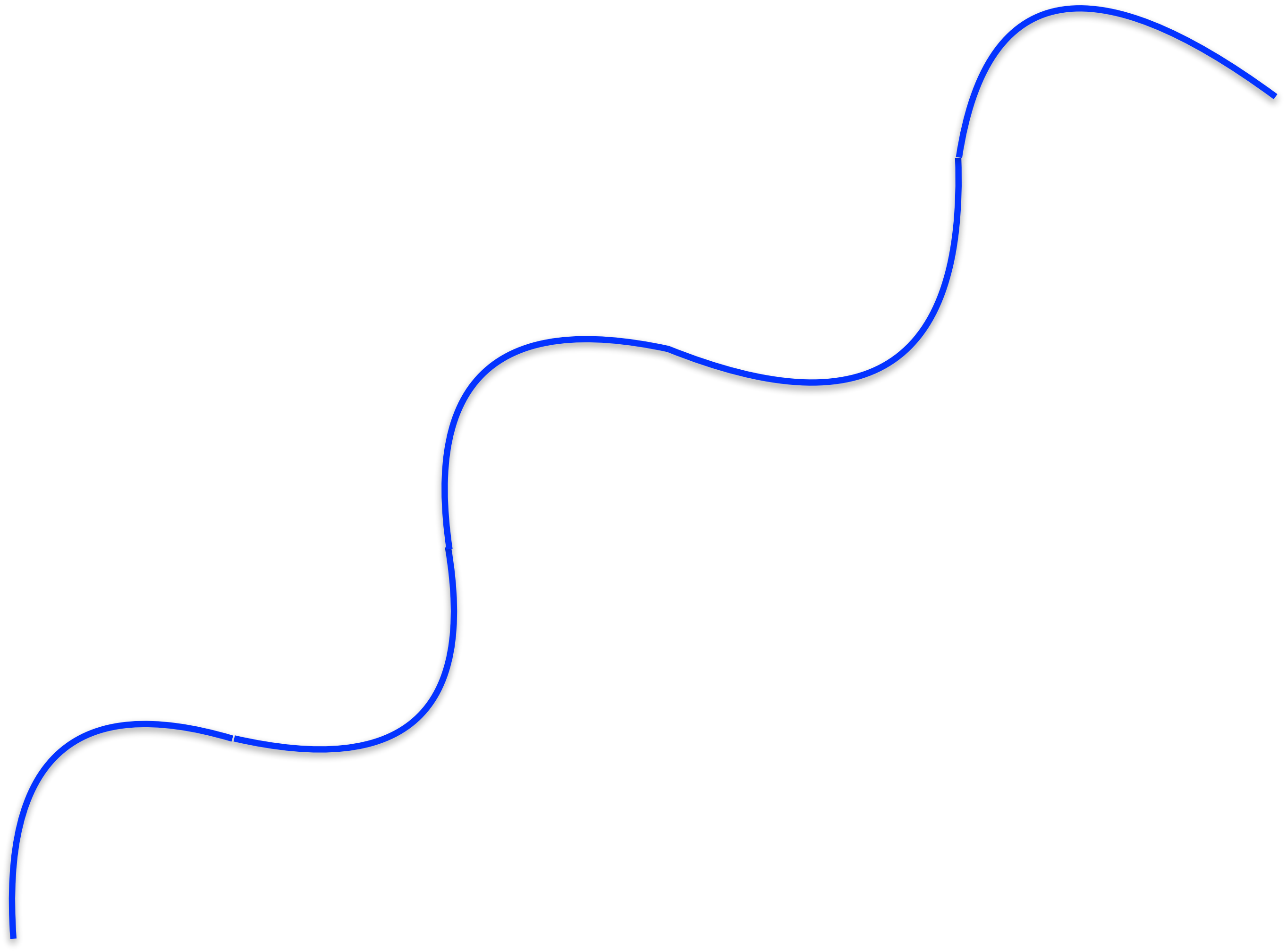
Each year, with more
workers and larger stock of
capital we can (potentially)
produce more

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

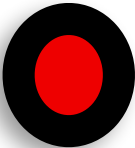


Some years we
produce above our
potential

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









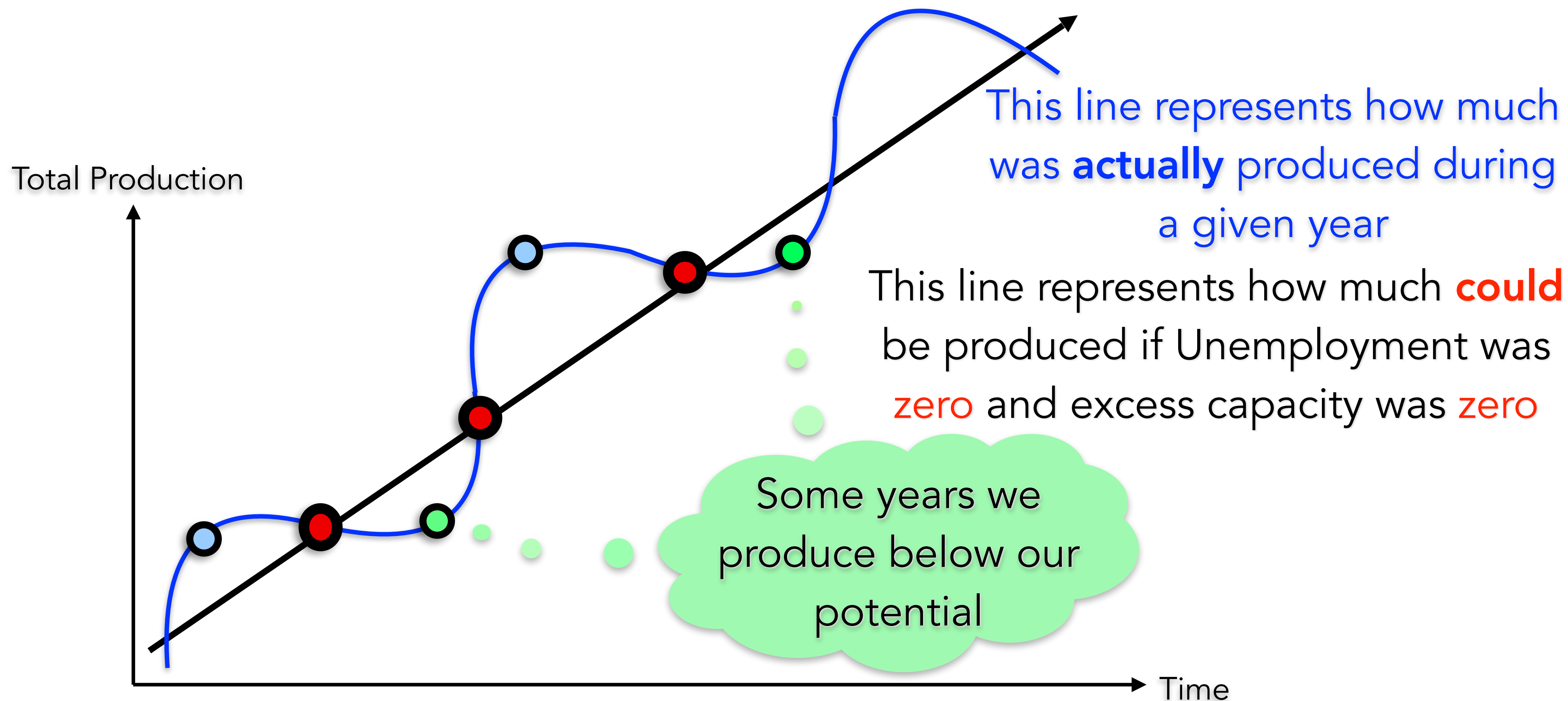








Potential GDP



Each year, population grows: there are more workers
Each year, we build more factories and add more equipment: larger stock of capital

Potential GDP = Hours worked x Labor Productivity x Labor Force