

A

E



A

E

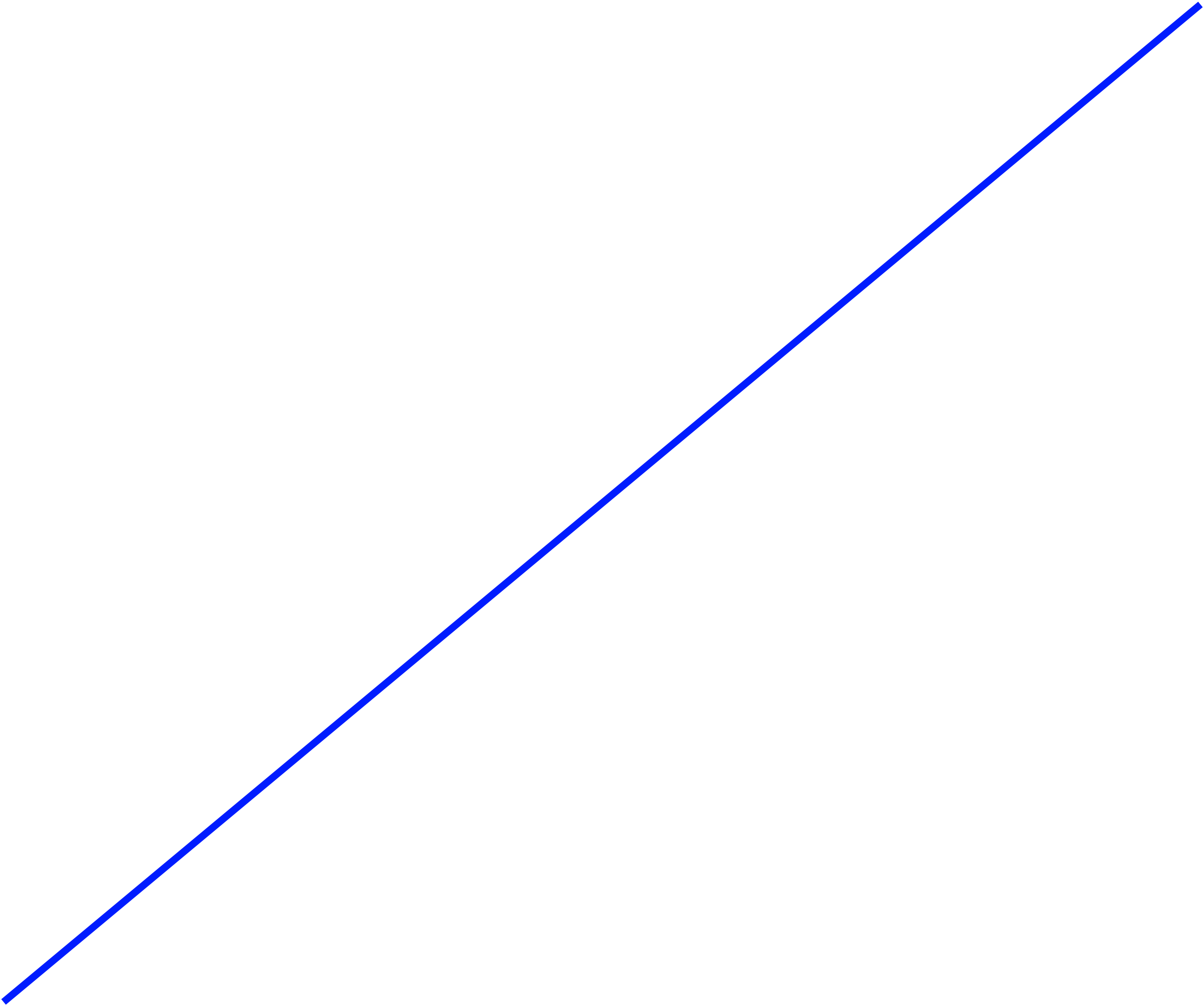
Total
Production

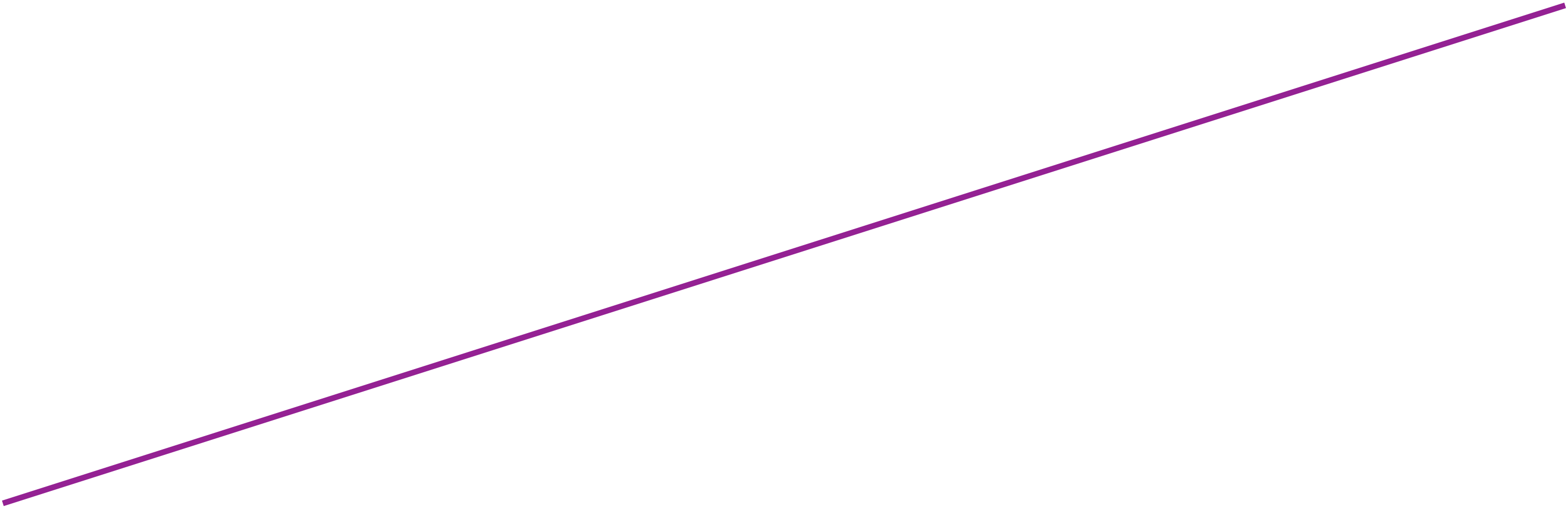
Inventories

Decrease

Inventories
Increase







Total Production (Y^*)

AE

=

Y*



AE(above)

Y(Production)

AE(below)

Production Y (higher)



Where the two lines cross:

The distance to the 45° line (production) is the same as the distance to the AE line (total sold):



No change in
inventories



$AE = Y^*$ We

sold exactly what we
produced

$AE > Y$ We

sold **more** than we
produced



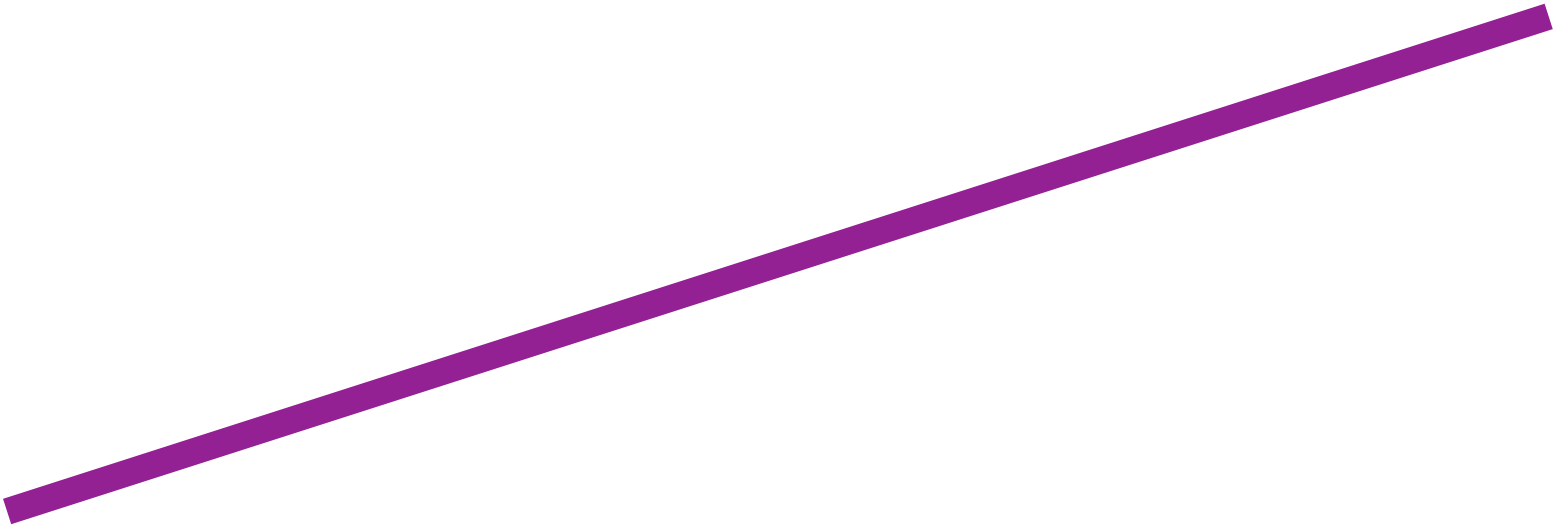
We sold goods that
were in inventory:
inventories drop

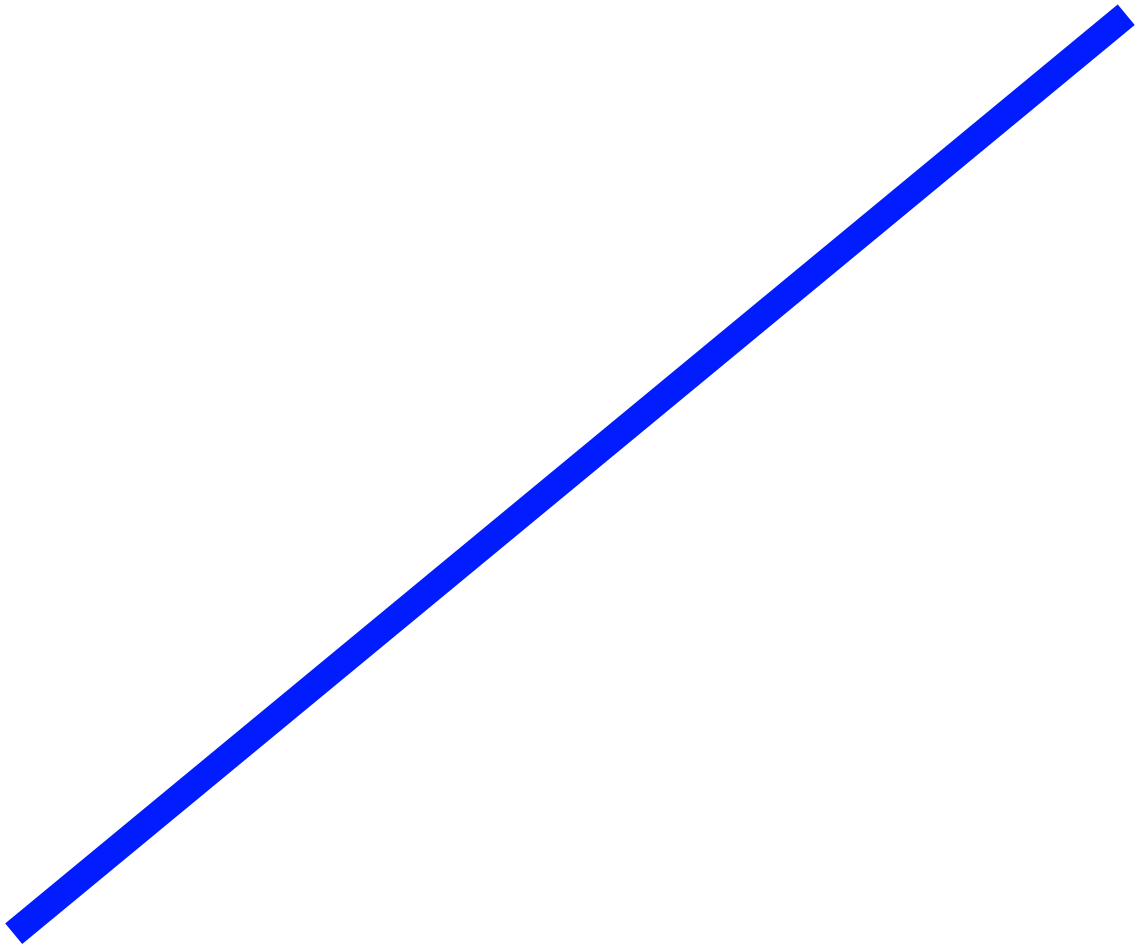
$Y > AE$ We


sold **less** than we
produced

For any output level below Y^*

For any output level above Y^*







$Y - AE = \text{increase}$
in inventories

$$Y - AE = \text{drop}$$

in inventories





We could not sell all
we produced: Inventories
increase

