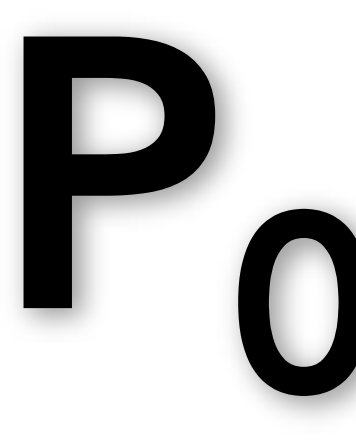
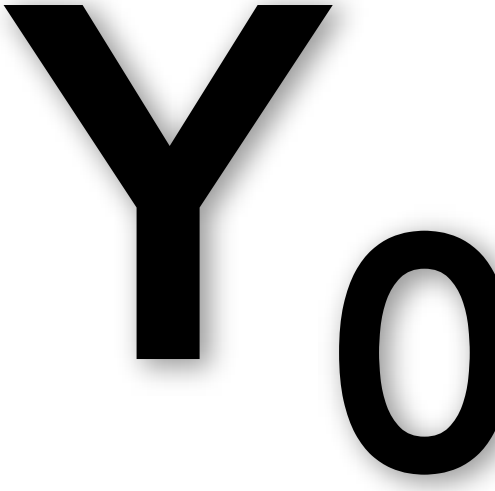
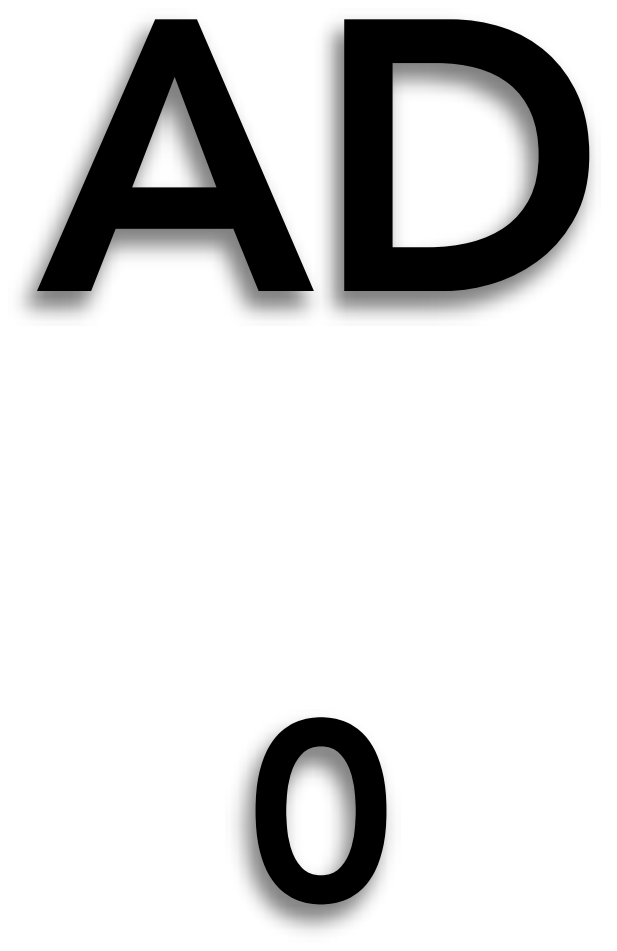
AD

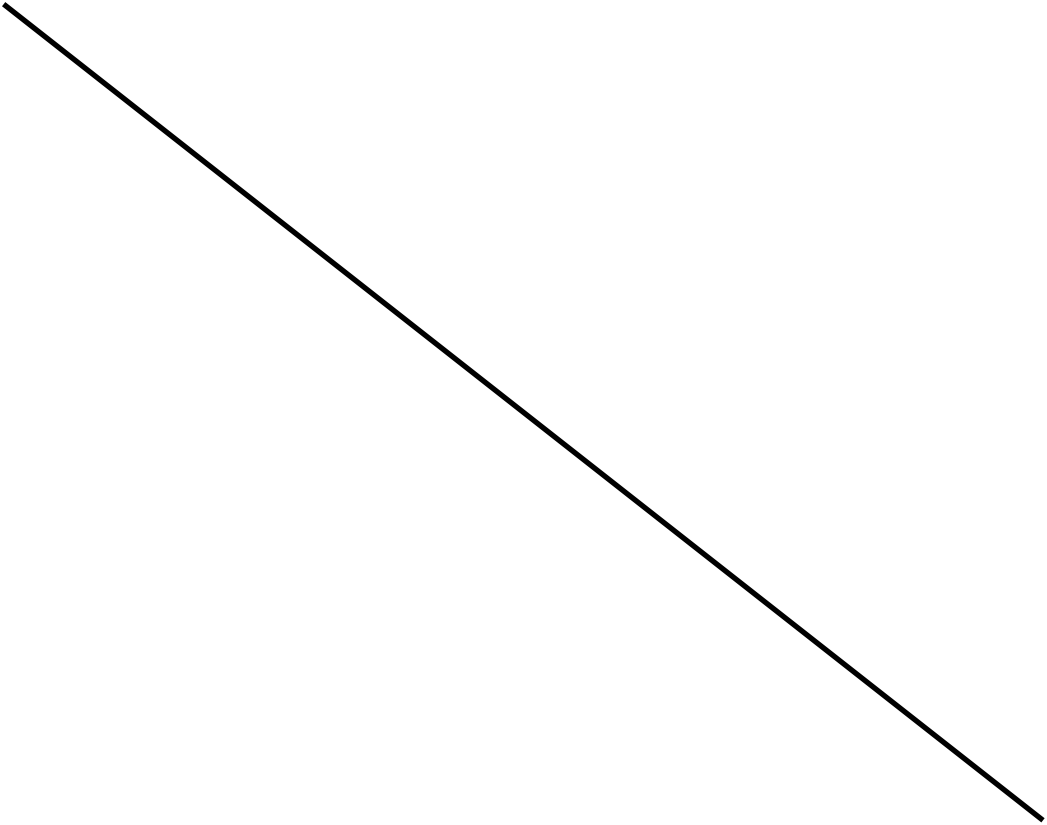
1


P
0

Y
1


Y
0


AD
0



AS

0

AD < AS,
inventories rise

$\Delta Y = 1000$

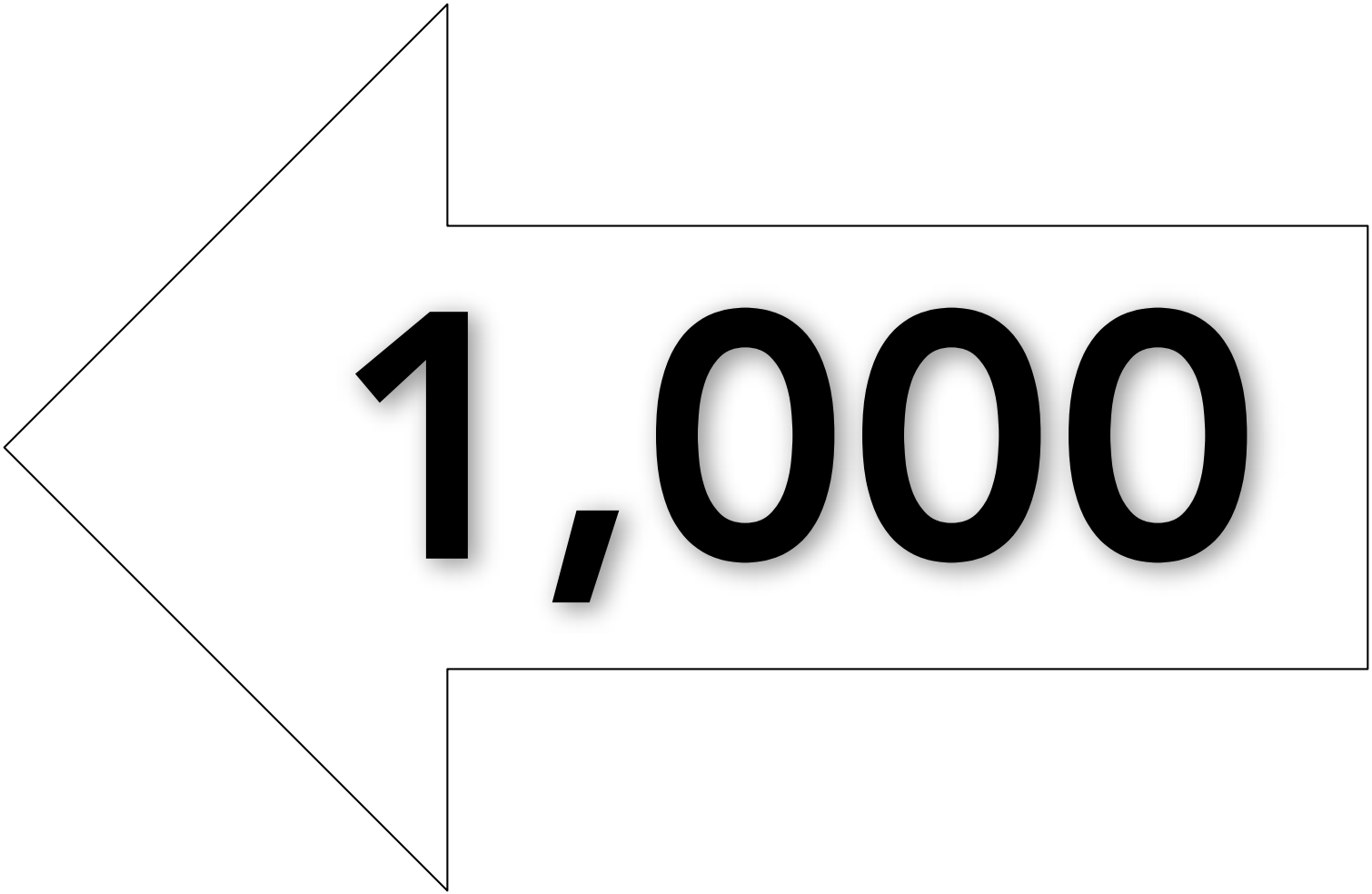
Output decrease by FULL multiplier amount

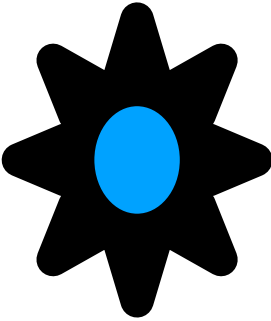
The shift in AD is the same as the increase in Equilibrium output:

Firms decrease output but DO NOT decrease prices:

AS is Horizontal

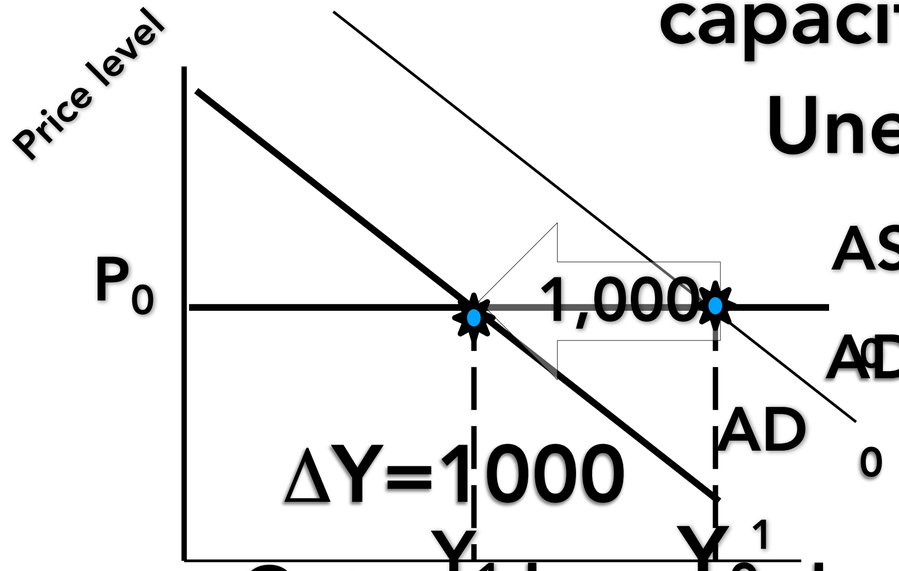
If there is excess capacity and massive Unemployment


1,000

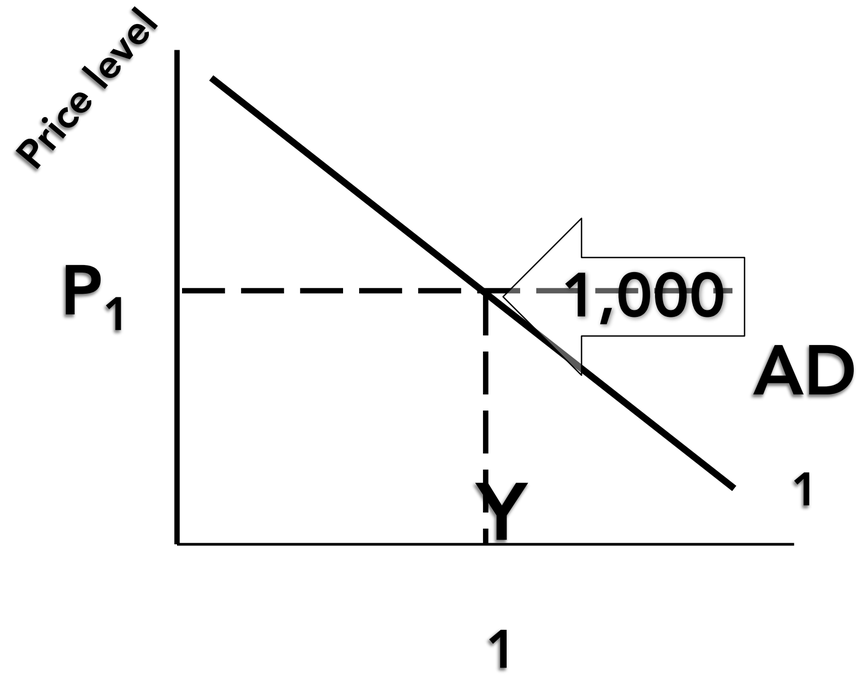


The shift in AD is the same as the increase in Equilibrium output:

AD < AS,
If there is excess
inventories
Firms decrease
capacity and massive
output but DO
Unemployment
NOT decrease
prices:
AS is Horizontal



Output decrease by FULL multiplier amount


Price level
P_1
1,000
AD
1
Y
1