

Po-----P-----P-----

Goods and Services Supplied

Goods and Services Demanded

AD

AS



Aggregate Demand
when prices = P_o

Determining Prices and Output: Aggregate Supply and Aggregate Demand

Price Level
(CPI)



Real GDP

At this price level

Aggregate Supply > Aggregate Demand

Production (AS) > Total Sales (AD)

Inventories rise

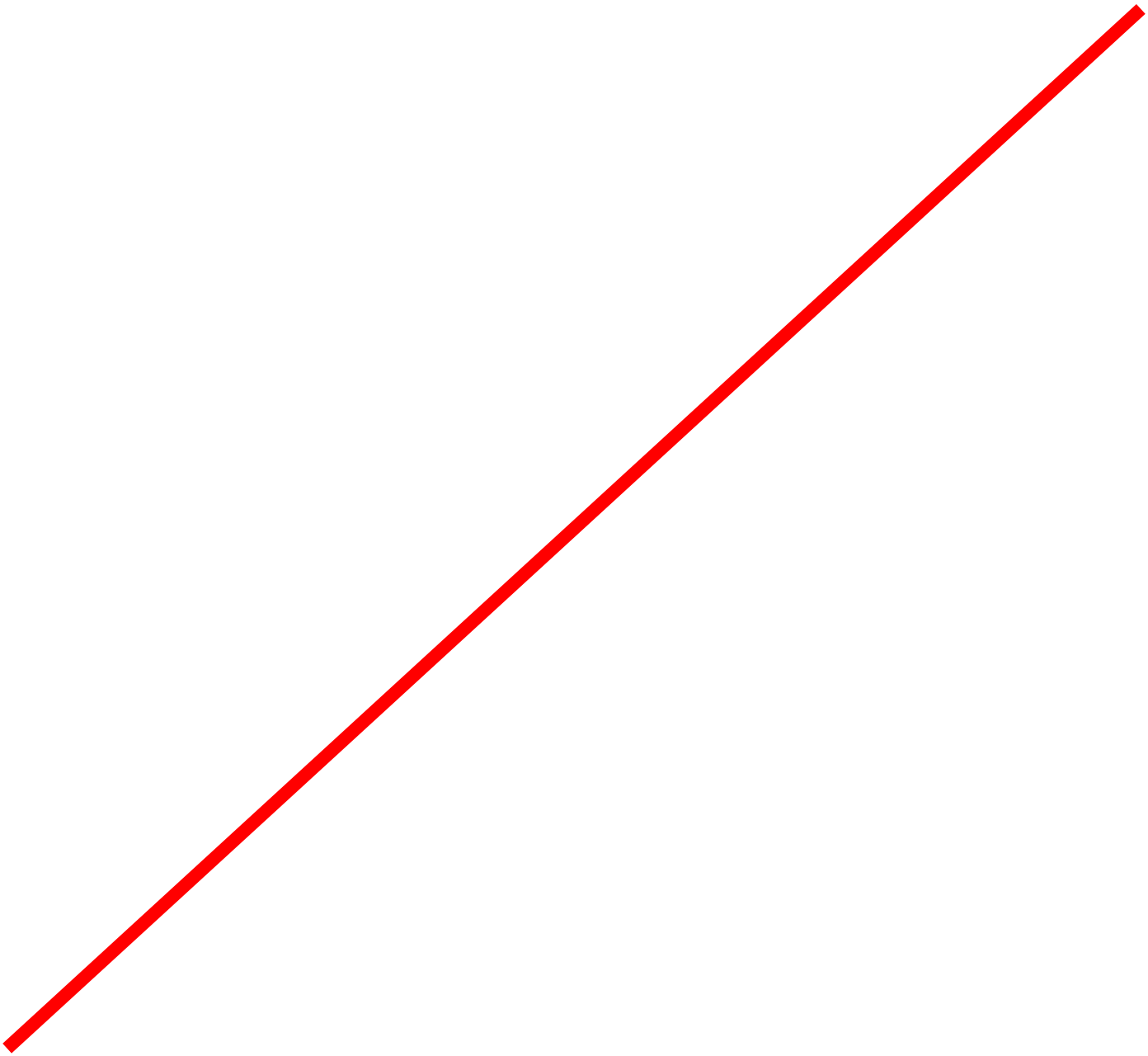
Aggregate Supply when prices = P_0

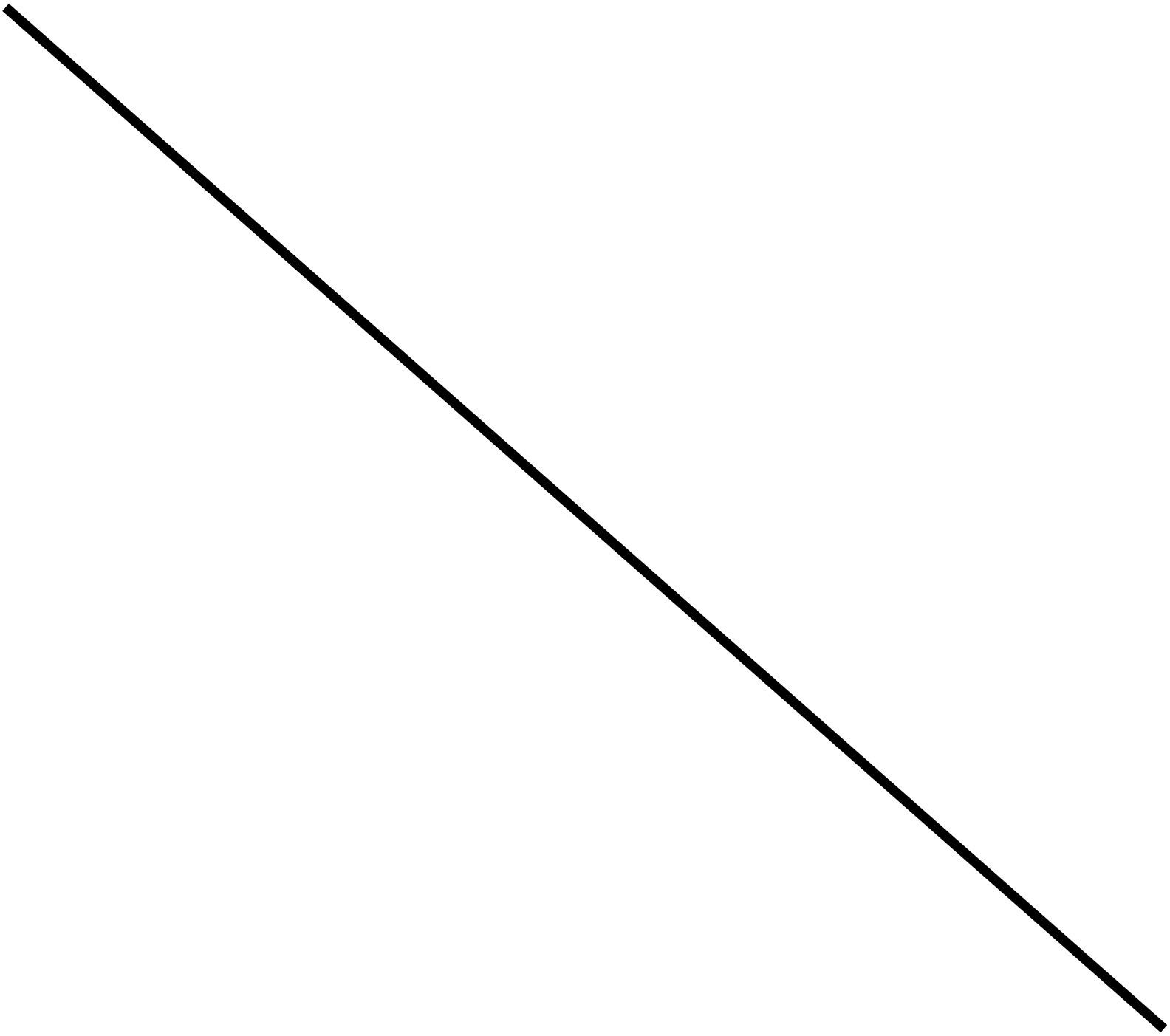


Firms decrease
production and prices

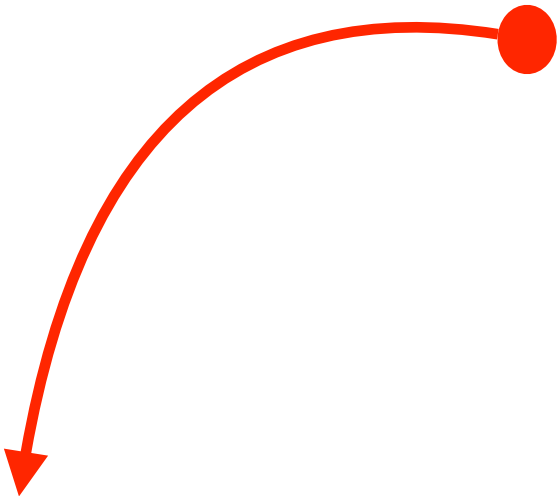
As prices drop

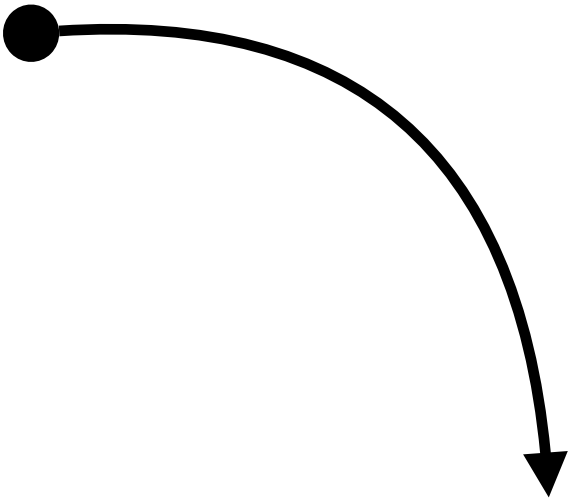
AD increase











Once prices drop to this level

Aggregate Supply = Aggregate Demand

Inventories do not change

No reason for firms to change output
and/or prices



Pe

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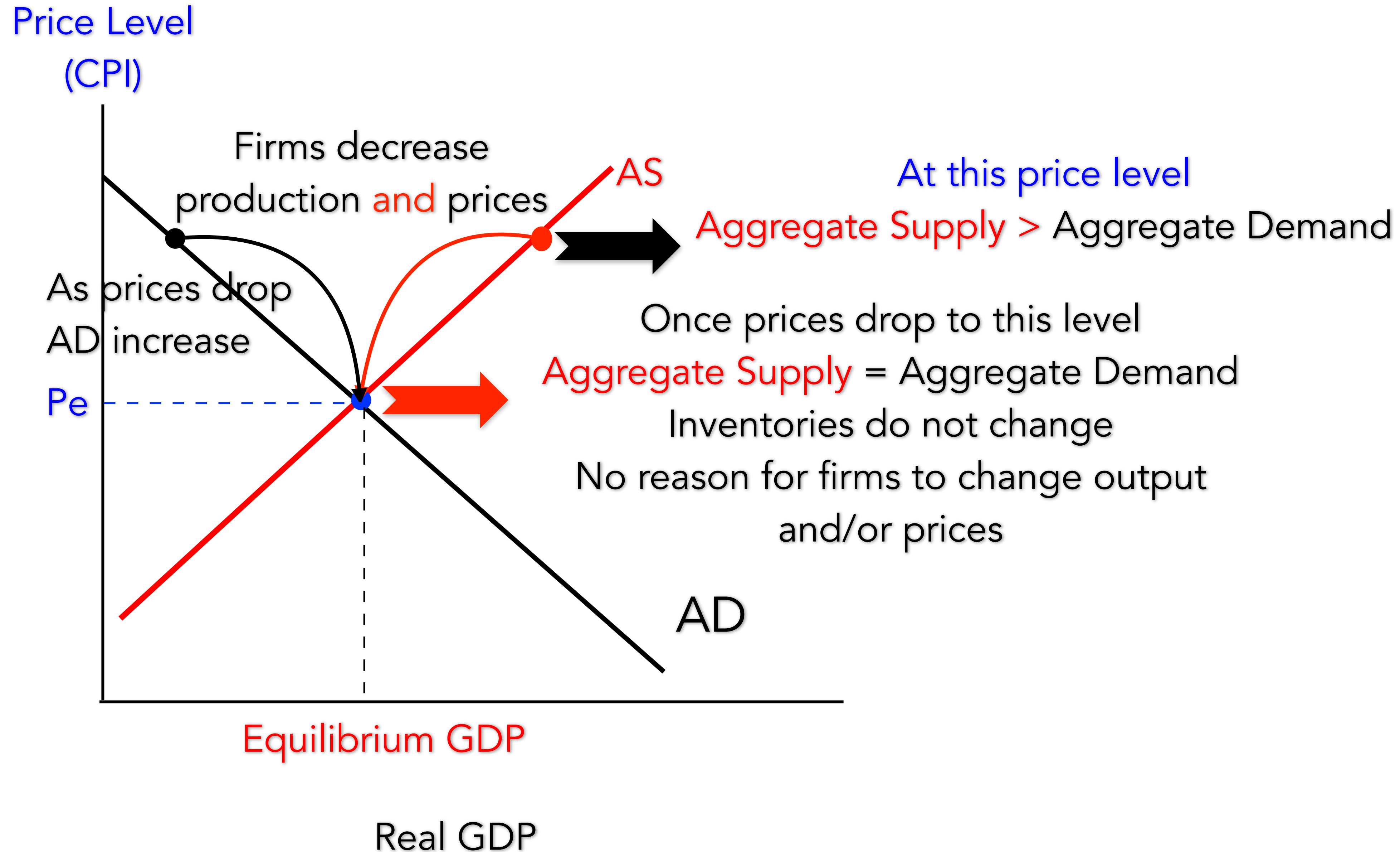
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Equilibrium GDP

Determining Prices and Output: **Aggregate Supply** and **Aggregate Demand**



Determining Prices and Output: **Aggregate Supply** and **Aggregate Demand**

Price Level
(CPI)



Real GDP