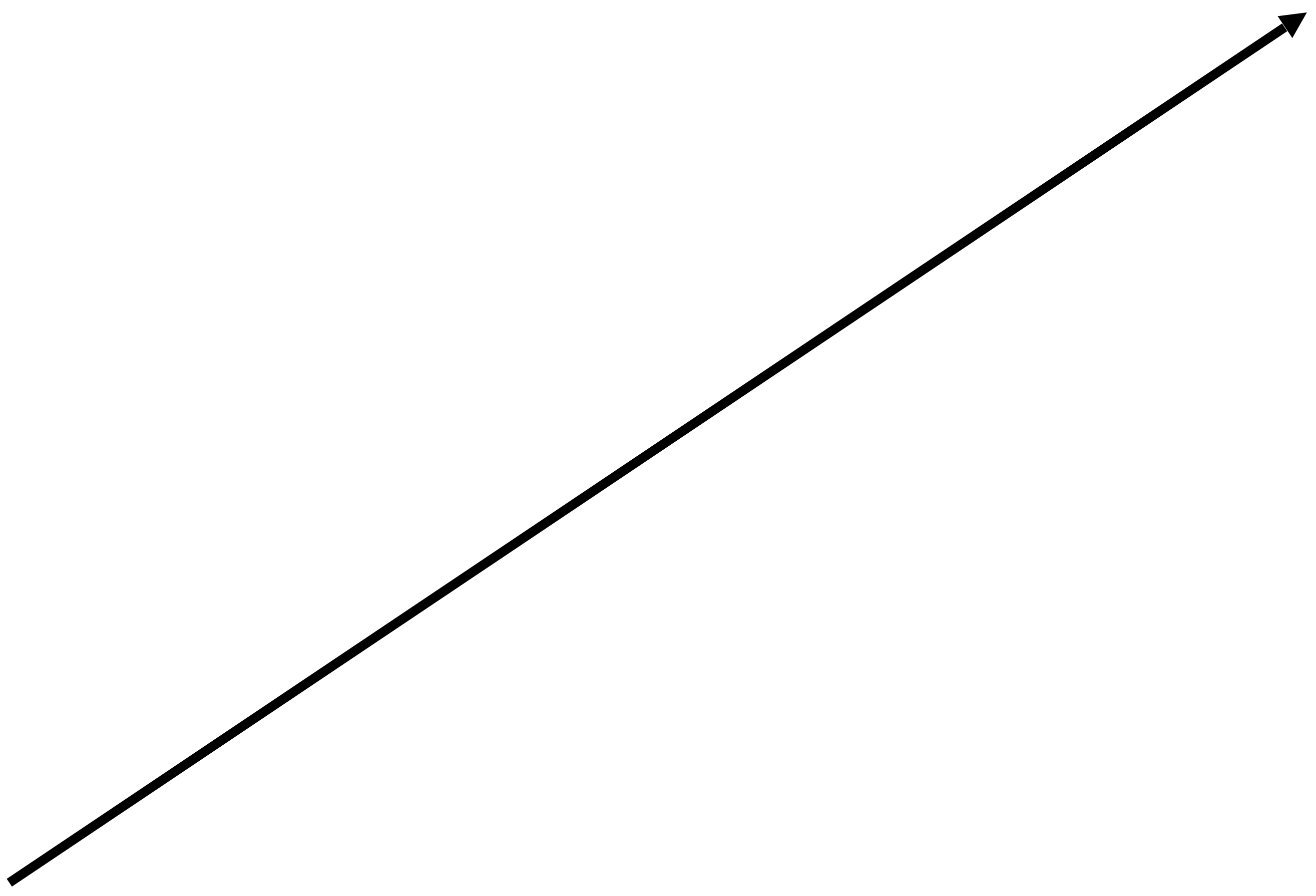






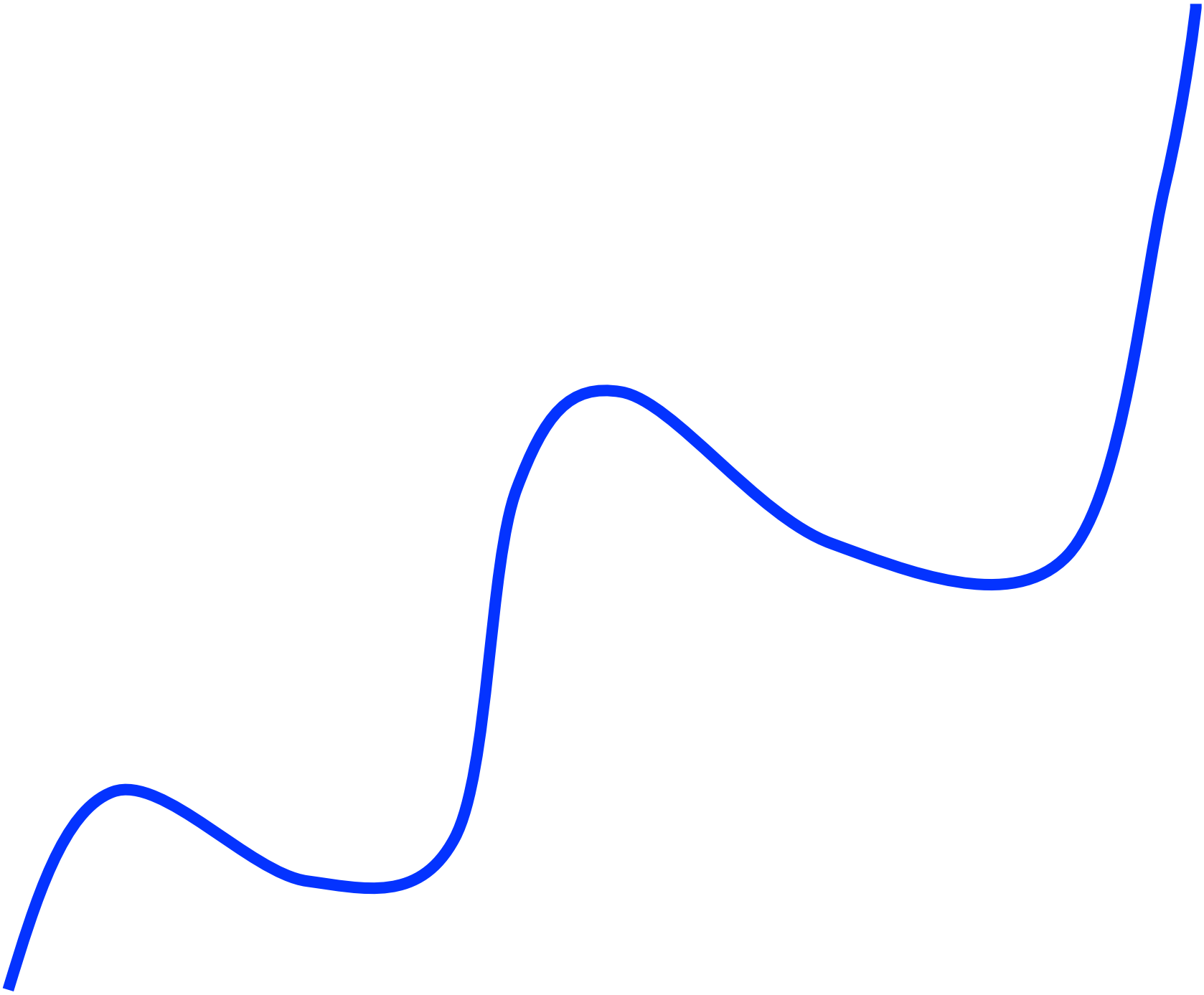
Some years,  
we produce at  
potential

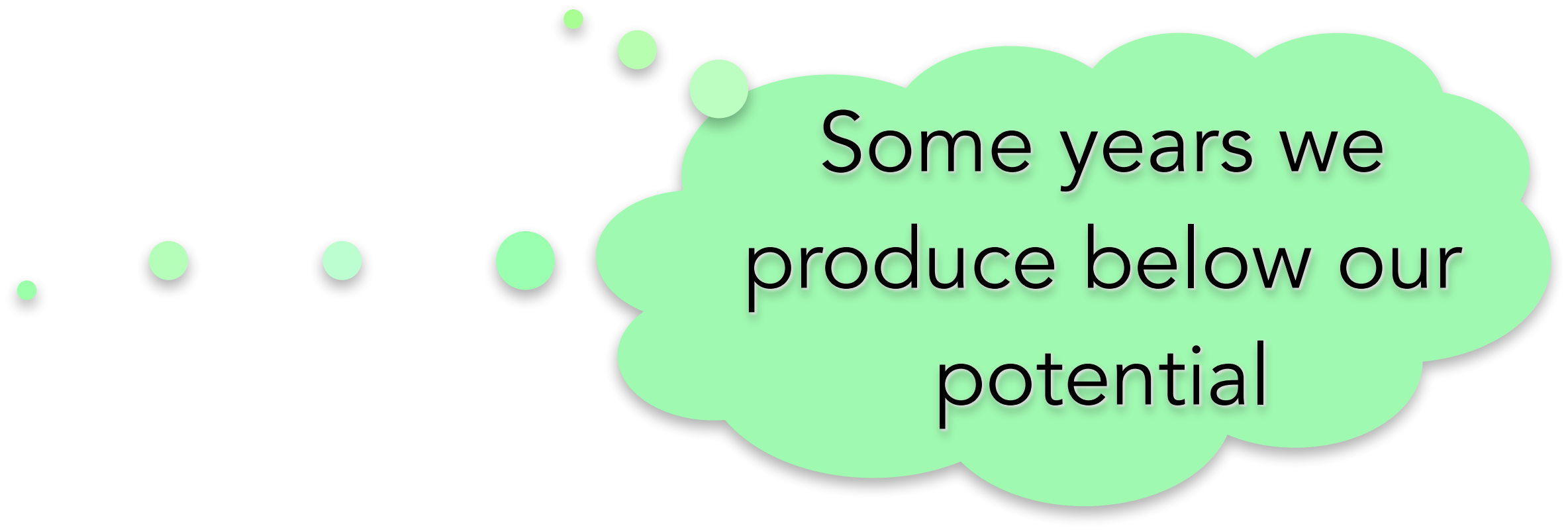




# Total Production







Some years we  
produce below our  
potential





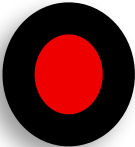
























Potential GDP

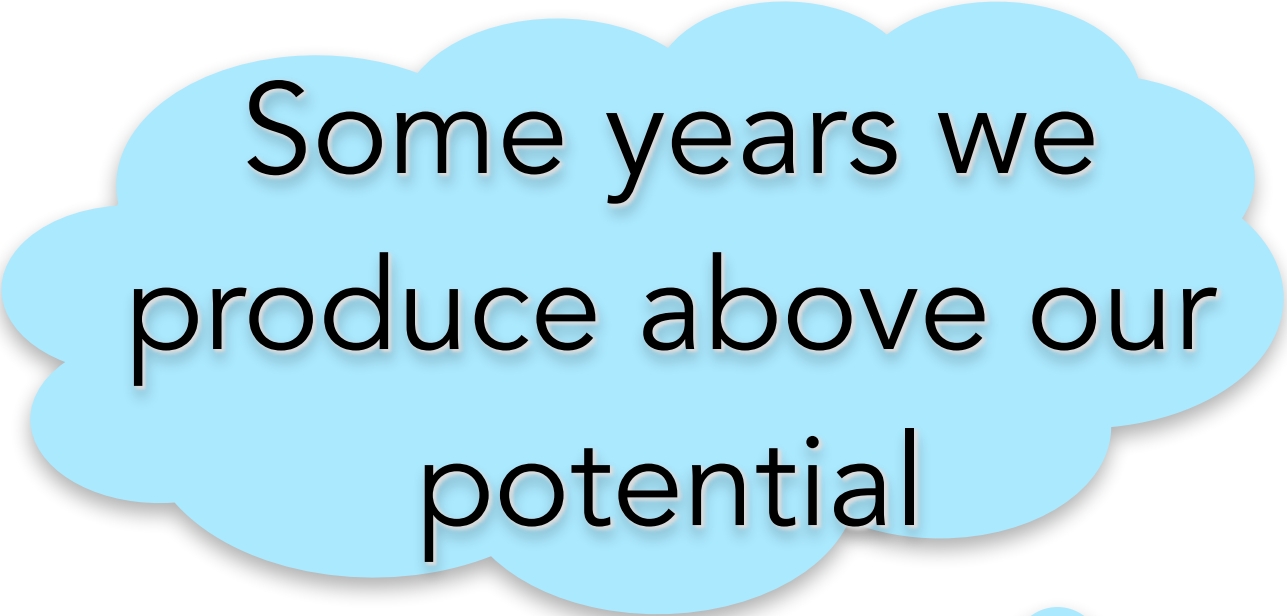
Each year, population grows: there are more workers

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

Some years we produce above our potential

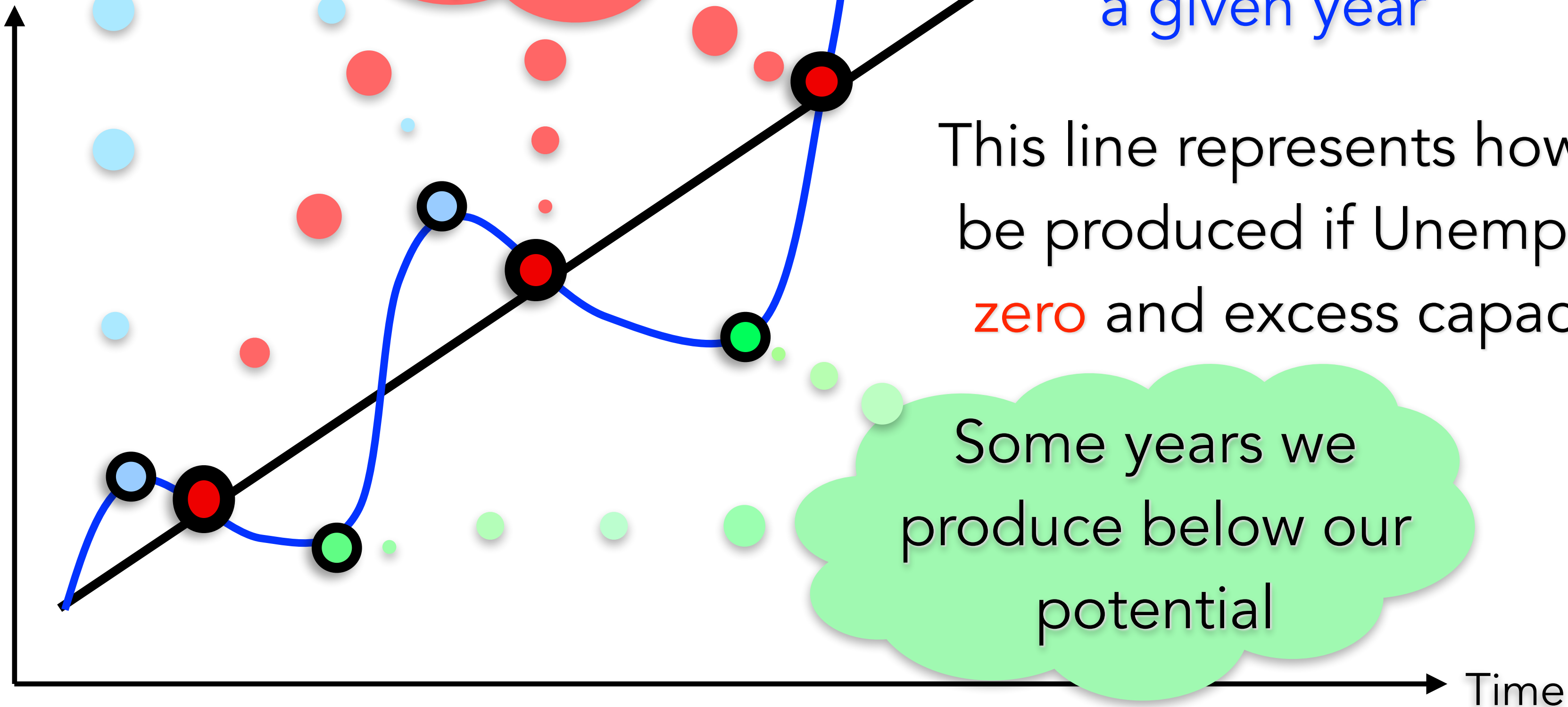
Some years, we produce at potential

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

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

Some years we produce below our potential

Total Production



Each year, population grows: there are more workers

Each year, we build more factories and add more equipment: larger stock of capital

$$\text{Potential GDP} = \text{Hours worked} \times \text{Labor Productivity} \\ \times \text{Labor Force}$$