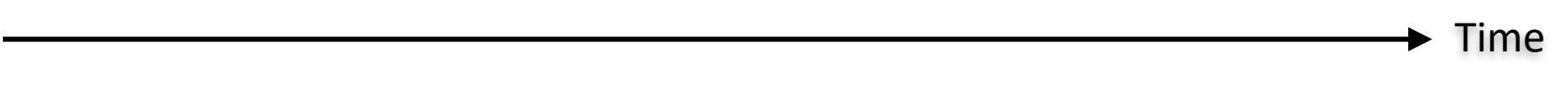
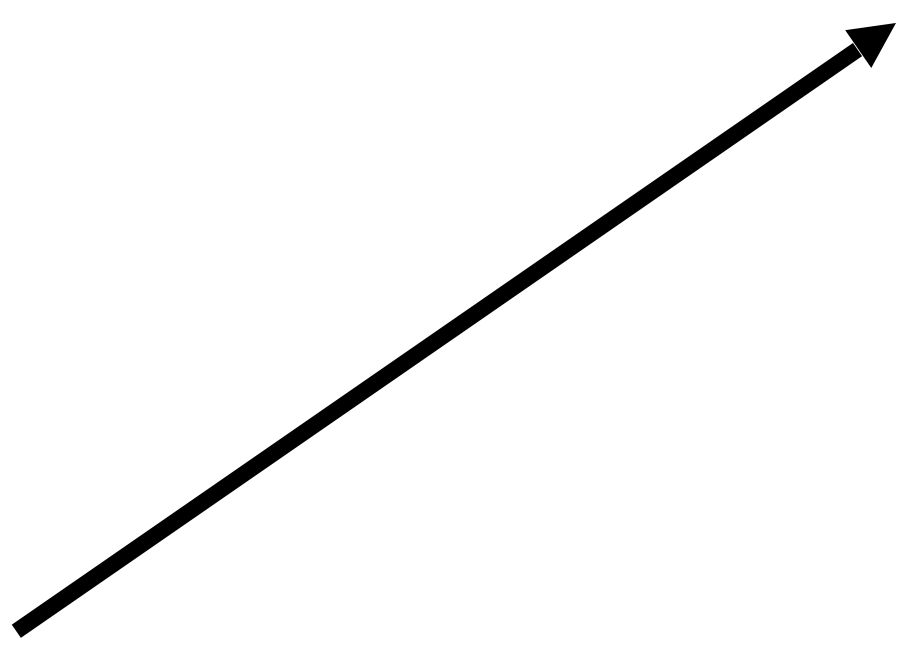


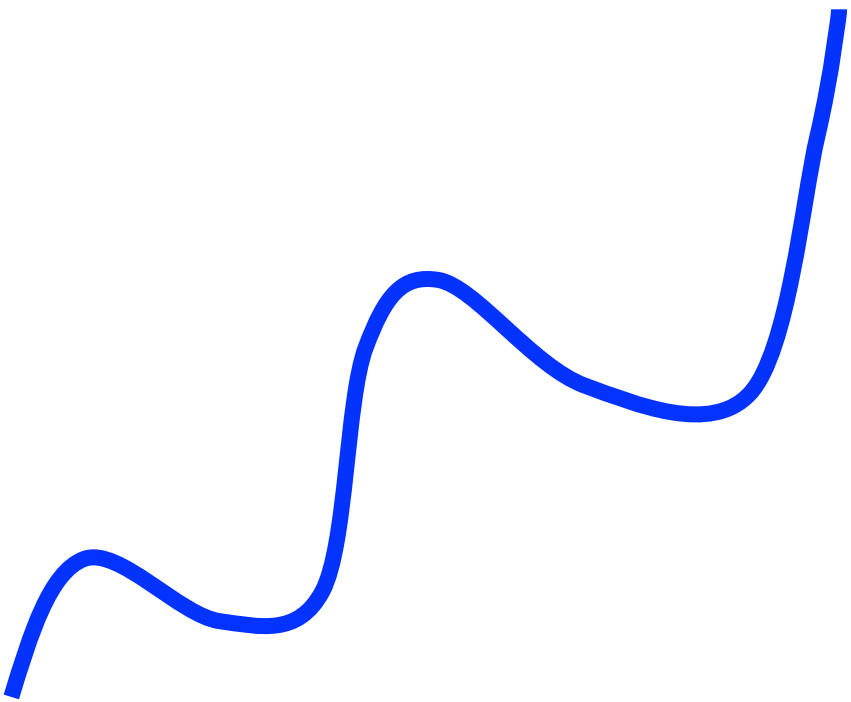
**Some years, we  
produce to our  
potential**






# Total Production







**Some years we  
produce below our  
potential**





























**Potential GDP**

Each year, population grows and there are more workers


Each year, we build more factories and buy more equipment

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**



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



**Some years we  
produce above our  
potential**



# Potential GDP

Some years we produce above our potential

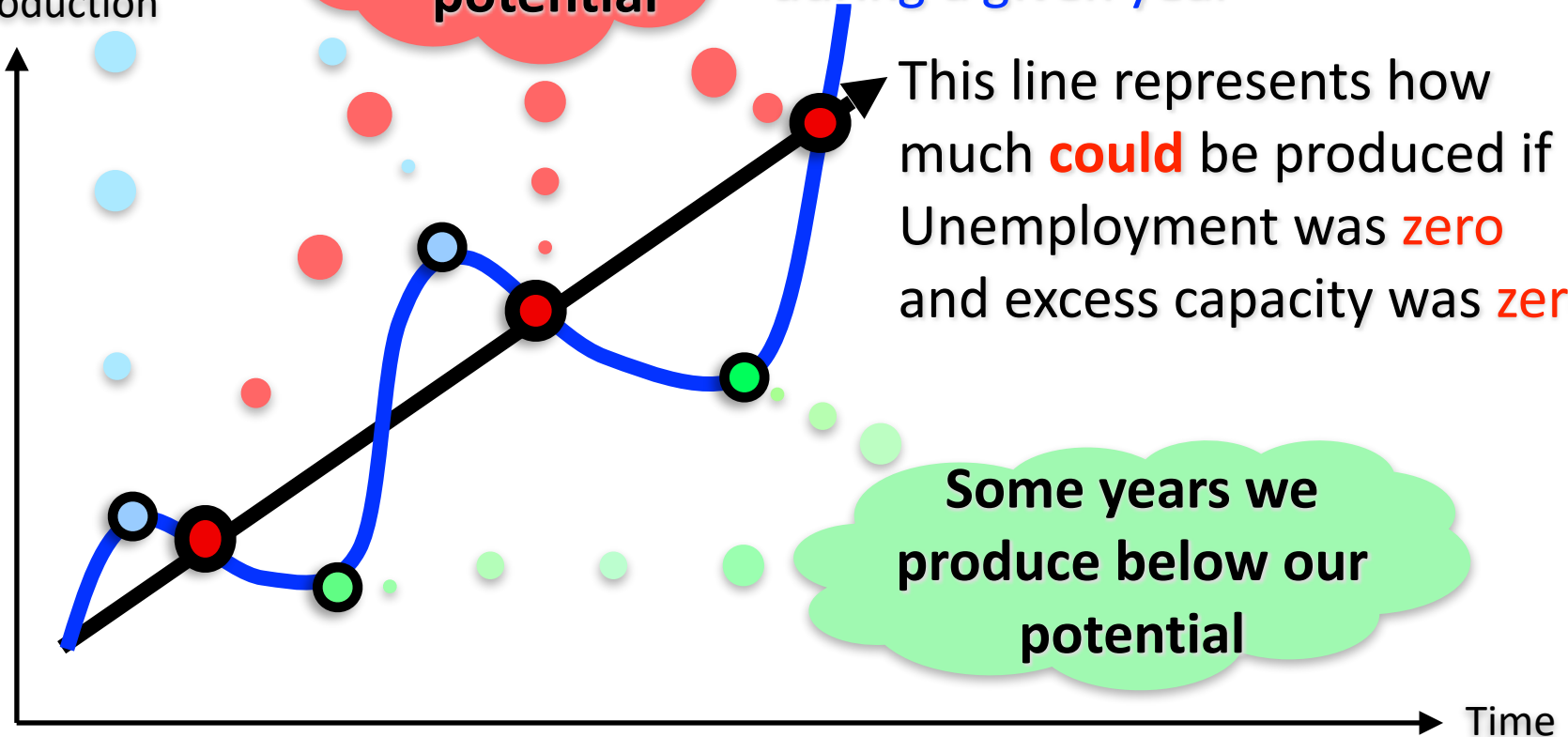
Some years, we produce to our potential

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

Total Production

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

Some years we produce below our potential



Each year, population grows and there are more workers  
Each year, we build more factories and buy more equipment

Potential GDP = Hours worked x Labor Productivity  
x The Labor Force