AE

Y=5,000

Y=10,000

Y=19,000

If total production Y = 5,000

Total Purchases AE = 6,400

Change in Inventories =

5,000 - 6,400 = -1,400

(decrease)

If total production Y = 10,000

Aggregate Expenditures AE =10,900

Change in Inventories =

10,000 – 10,900 = -900

(decrease)

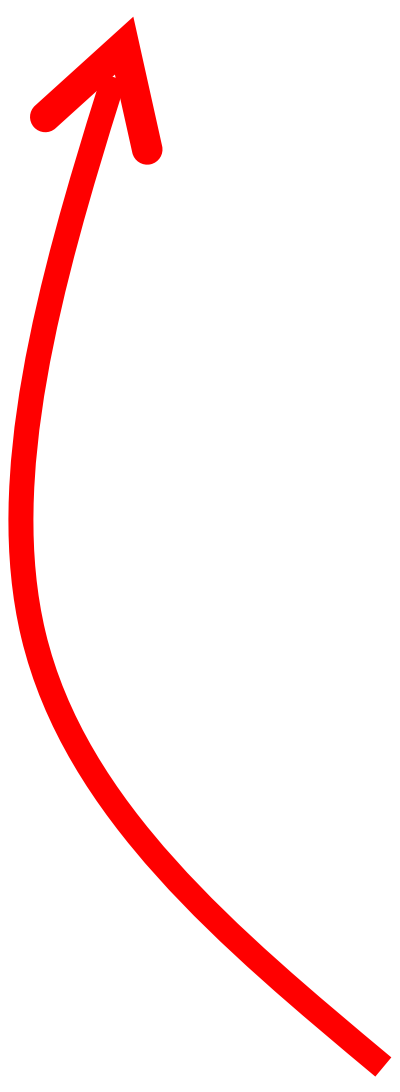
If total production Y = 25,000

Change in Inventories =

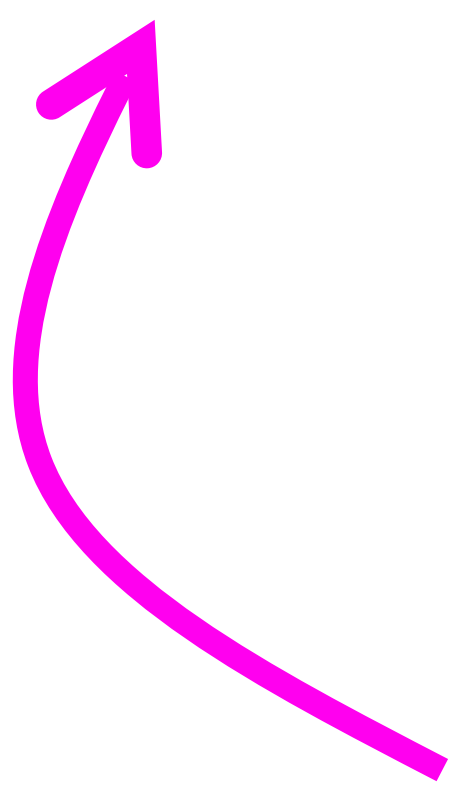
25,000 – 24,400 = +600

(increase)

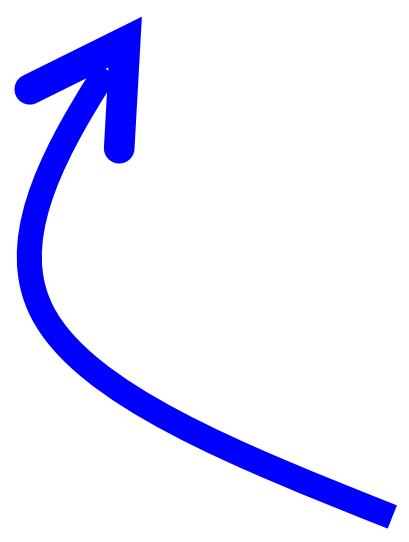
Y=25,000

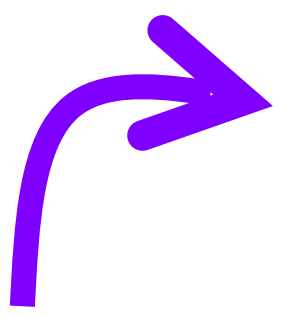


Firms increase production

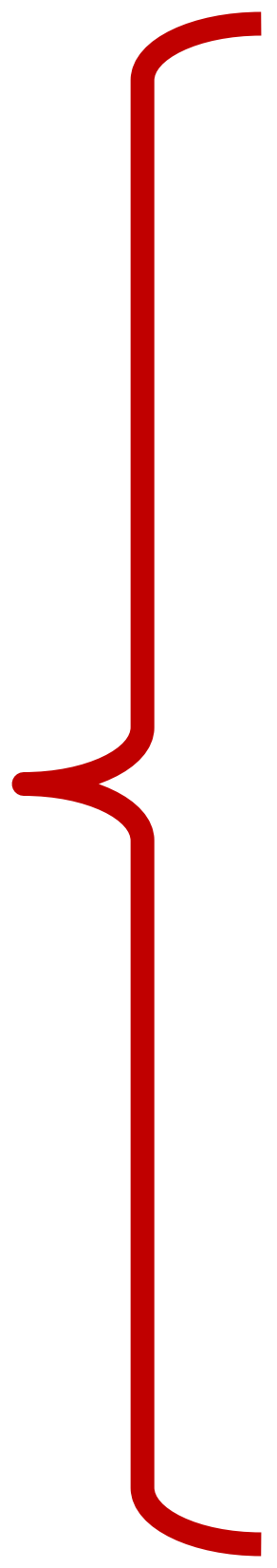


No change in production





AE



Produced = 5,000

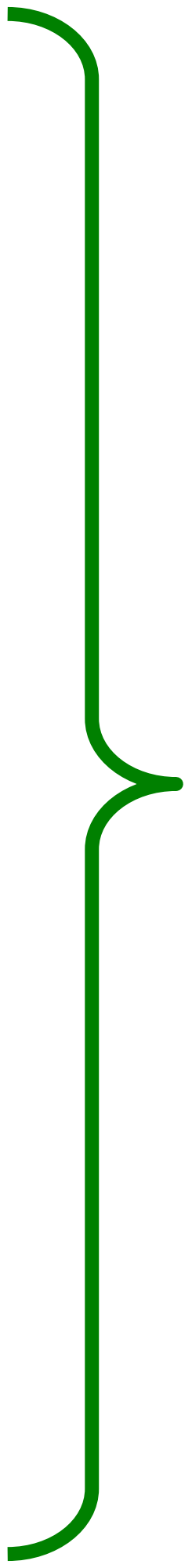
AE=6,400

AE=10,900

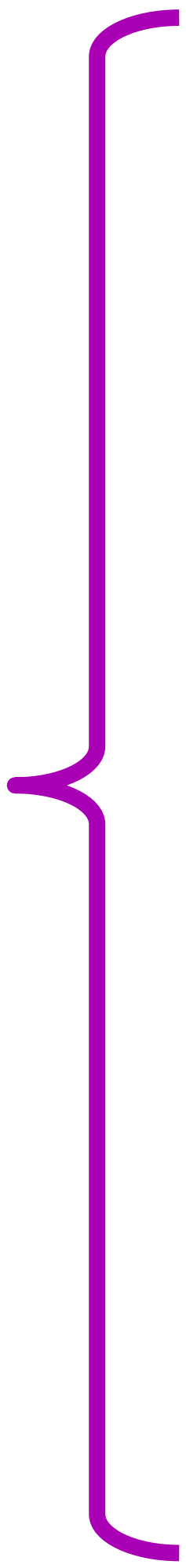
$$Y=19,000$$

$$Y = 25{,}000$$

AE=24,400



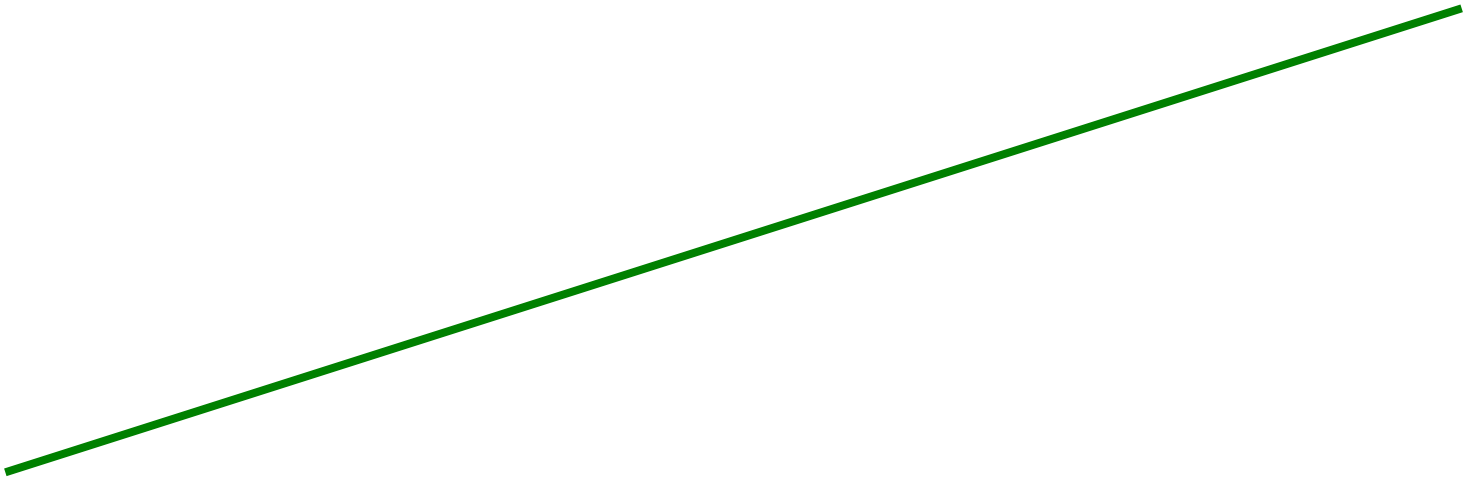
$$Y = 10{,}000$$

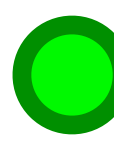


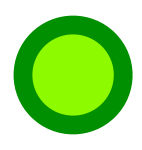
Change in Inventories = 19,000 – 19,900 = 0 (no change)

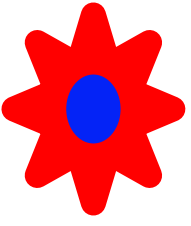
If total production Y = 19,000

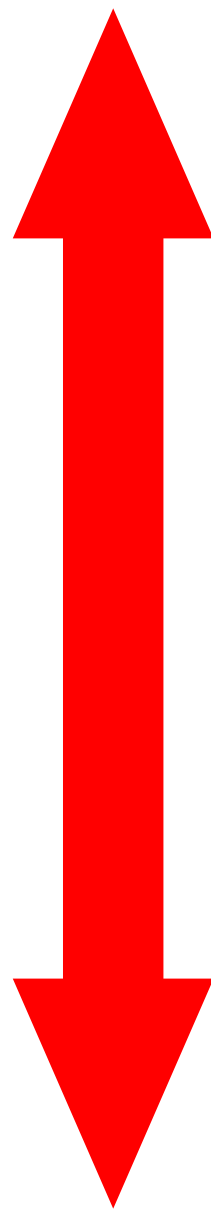
AE=19,000

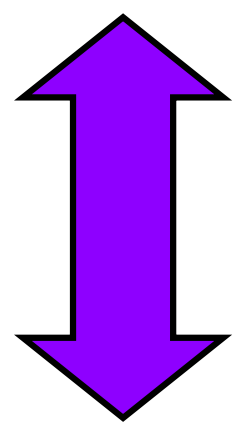




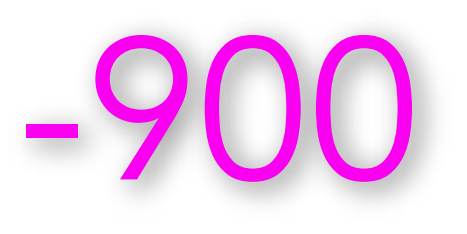




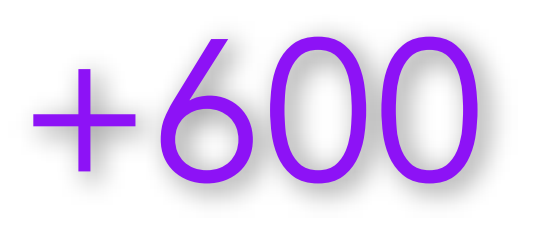




-1,400


-900

Firms increase production


+600

Firms decrease production

Aggregate Expenditures AE = 19,000

Produced 5,000
sold more: 6,400

Sold part of what
we had in inventories:
inventories **drop**

Produced

10,000 sold **more**:

10,900

Sold part of what
we had in inventories:
inventories **drop**

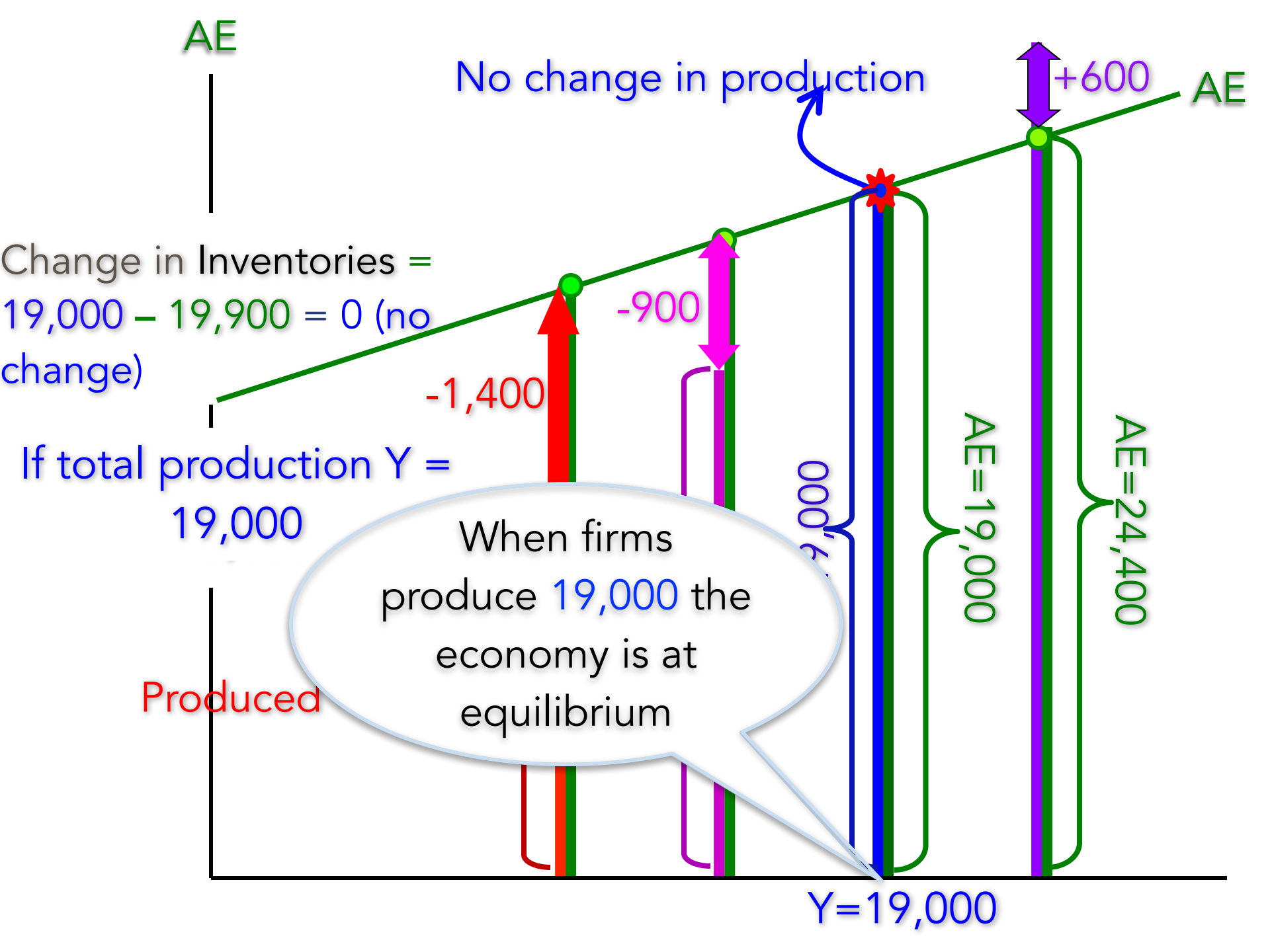
We could not sell everything we produced: Inventories **rise**

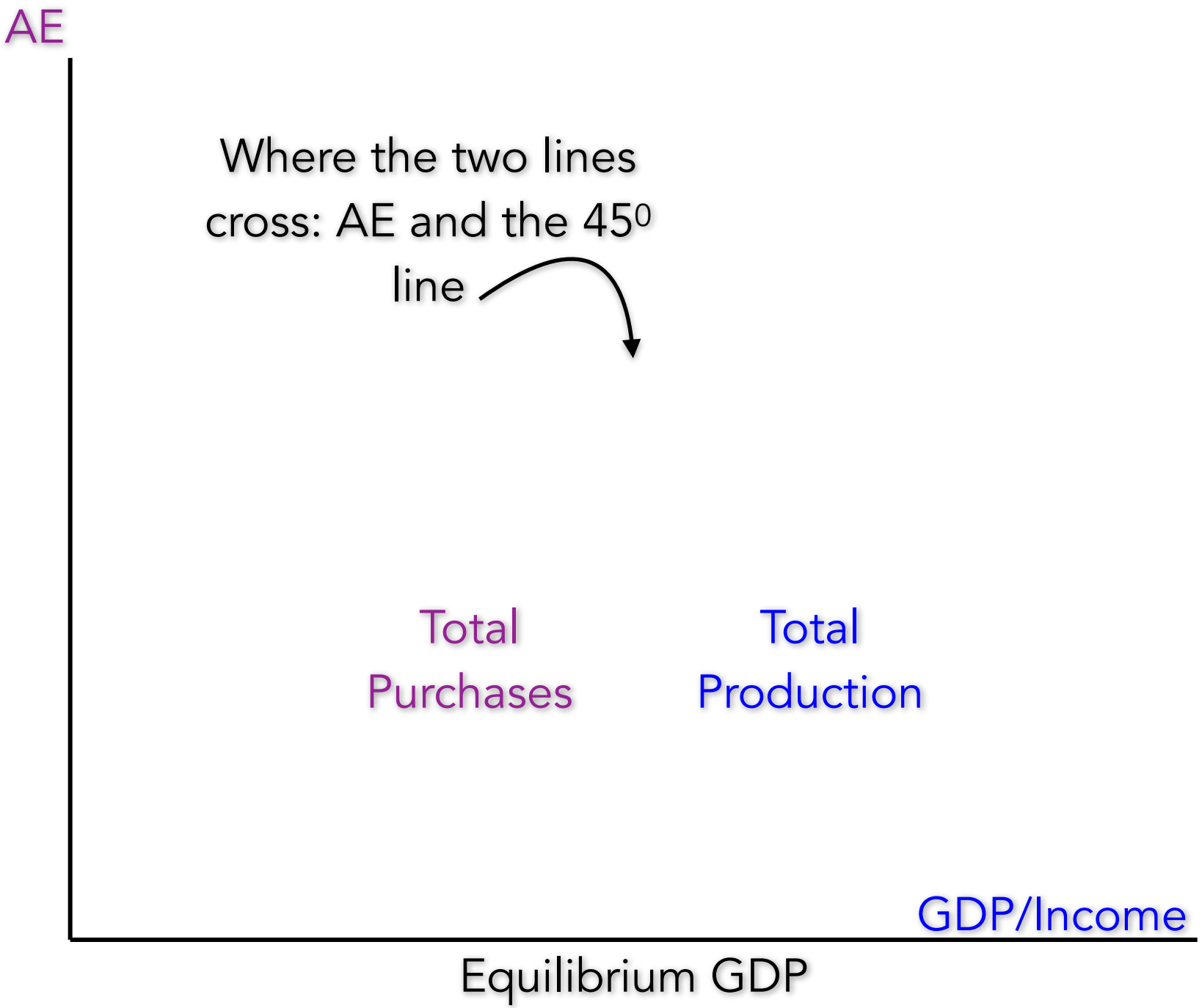
Produced
25,000 sold less
24,000

No change in inventories

Produced
19,000 sold 19,000

When firms produce 19,000 the economy is at equilibrium


AE
No change in production
+600
AE
Change in Inventories =
19,000 – 19,900 = 0 (no
change)
-900
-1,400
If total production Y =
19,000
AE=19,000
AE=24,400
When firms
produce 19,000 the
economy is at
equilibrium
Produced
Y=19,000


AE
Where the two lines cross: AE and the 45⁰ line
Total Purchases
Total Production
GDP/Income
Equilibrium GDP