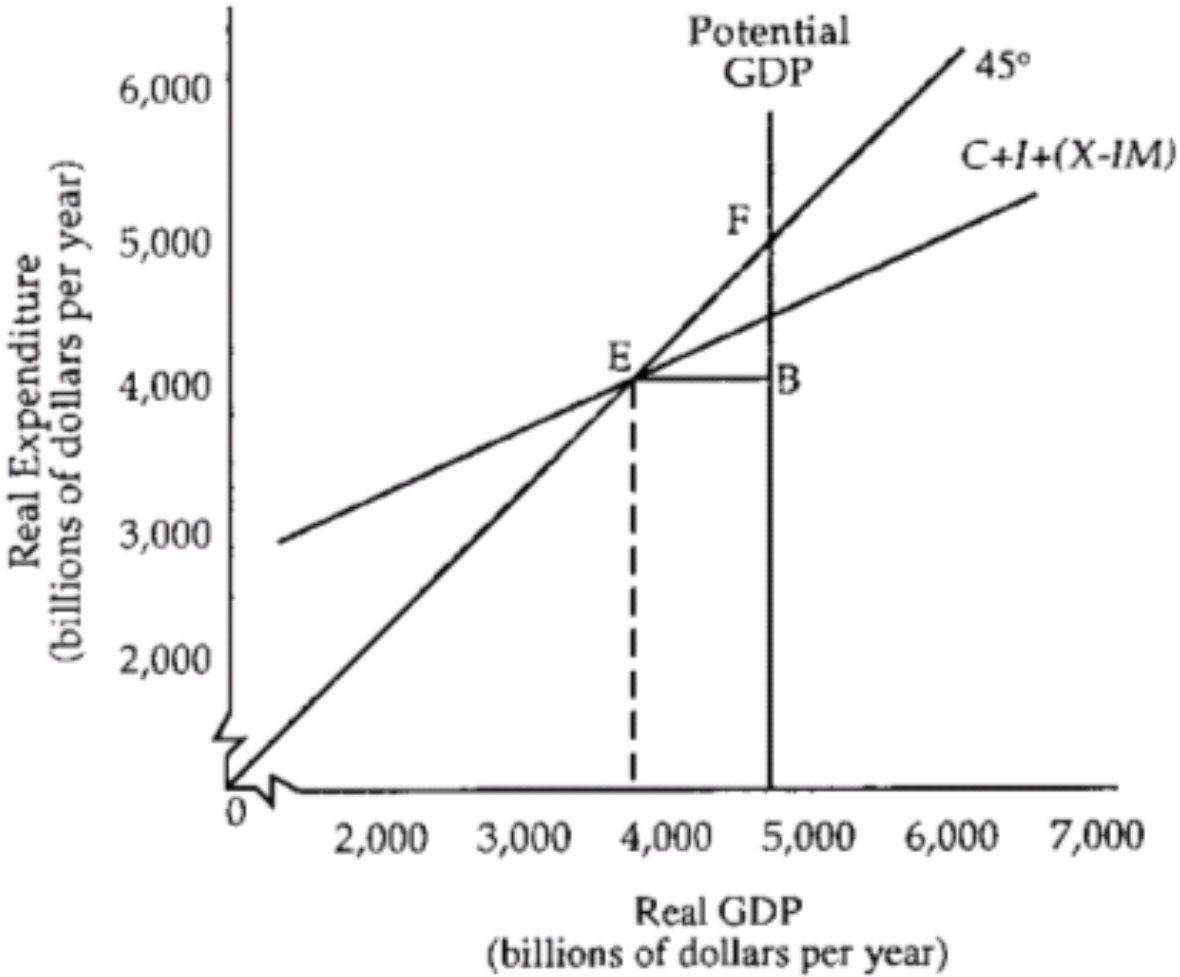
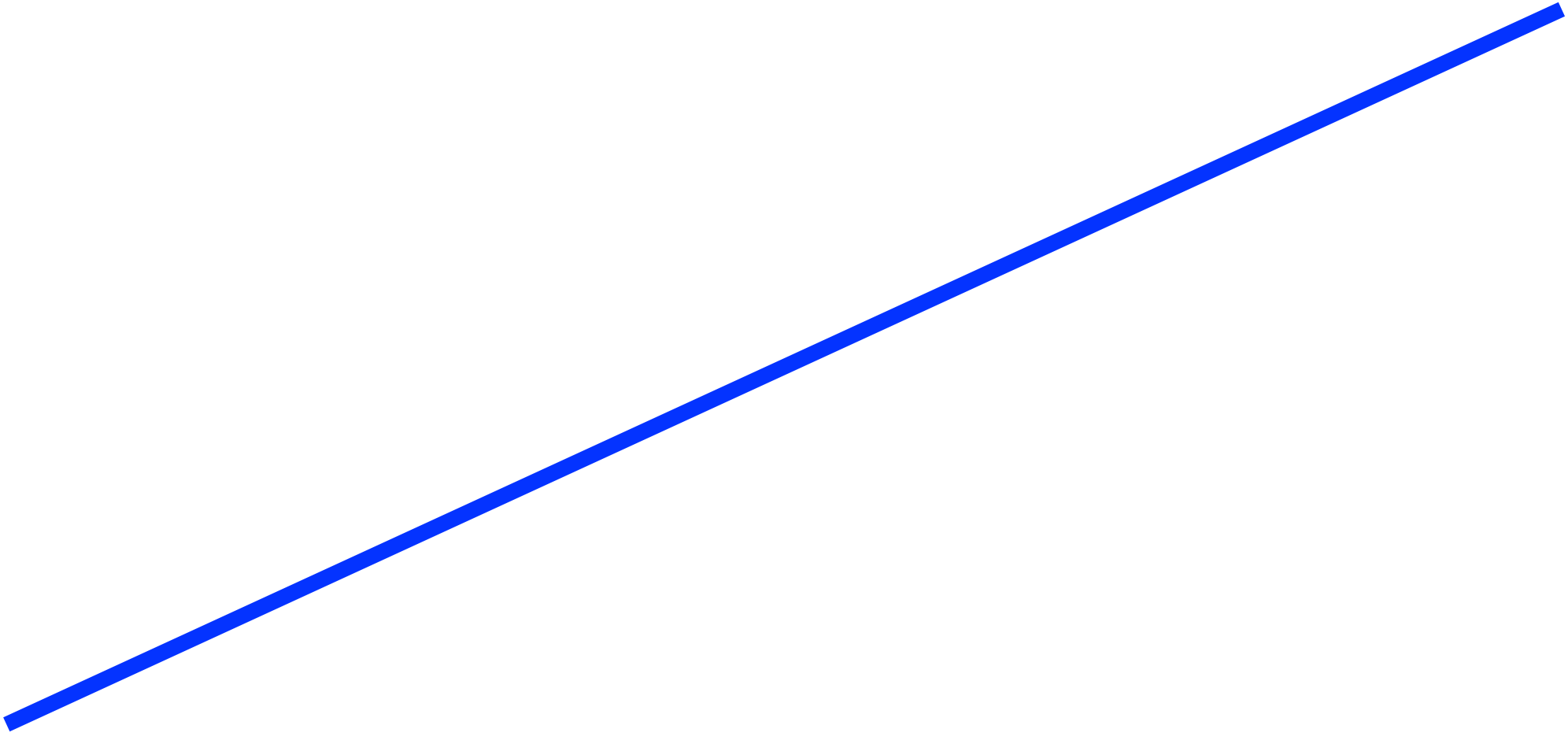
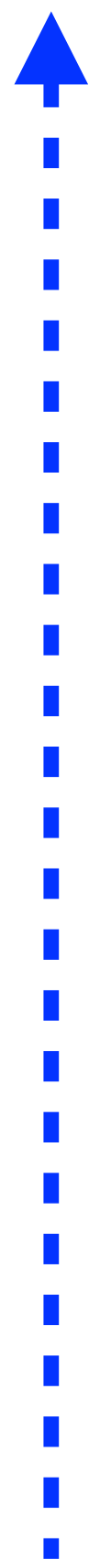
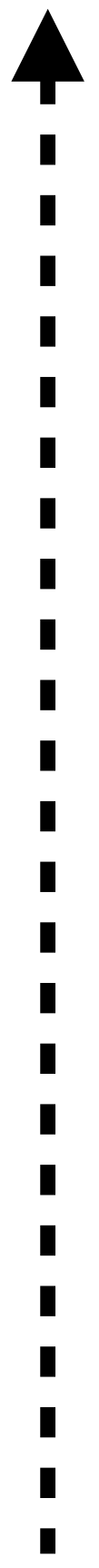

Potential
GDP
45°
C+I+(X-IM)
F
E
B
6,000
5,000
4,000
3,000
2,000
0
2,000
3,000
4,000
5,000
6,000
7,000
Real Expenditure
(billions of dollars per year)
Real GDP
(billions of dollars per year)







AE < 5,000

Output = 5,000

AE0

1. Is the economy at equilibrium ?

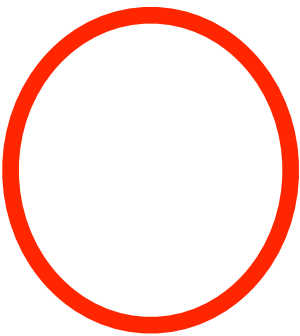
2. Total Spending(> = <)Output

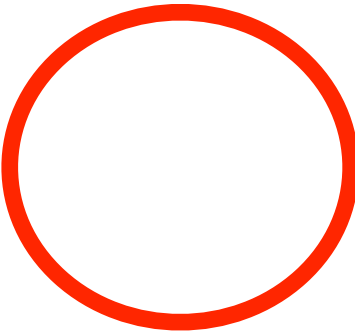
3. Inventories (rise, fall, remain the same)

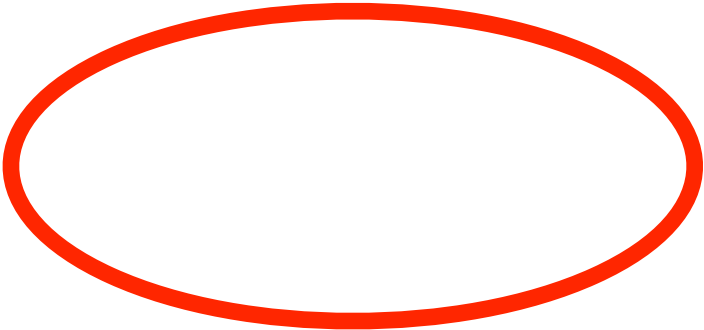
4. Firms will (increase, decrease, not change)output.

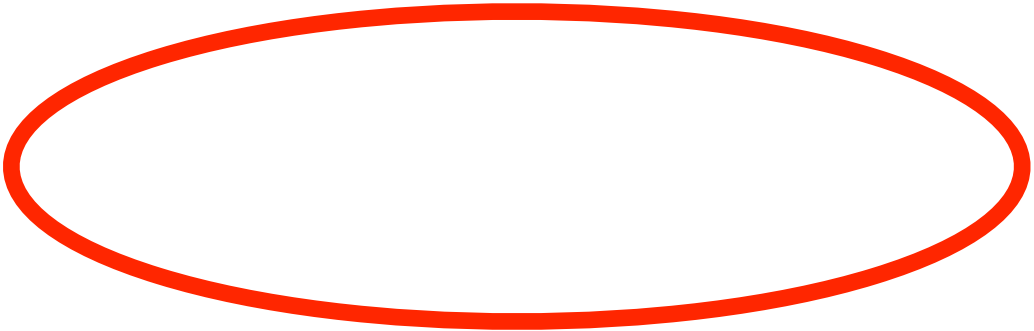
5. Once the Economy reaches equilibrium, will the economy experience a (recessionary, inflationary) gap? Size of the Gap = _____

6. At equilibrium the economy experiences (unemployment/labor shortages)

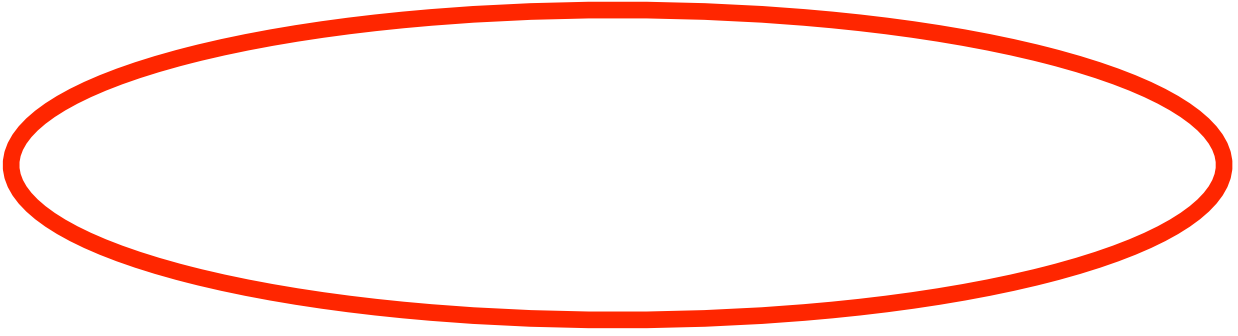


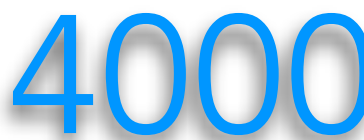






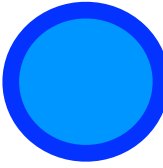
5000 - 4000 = 1000

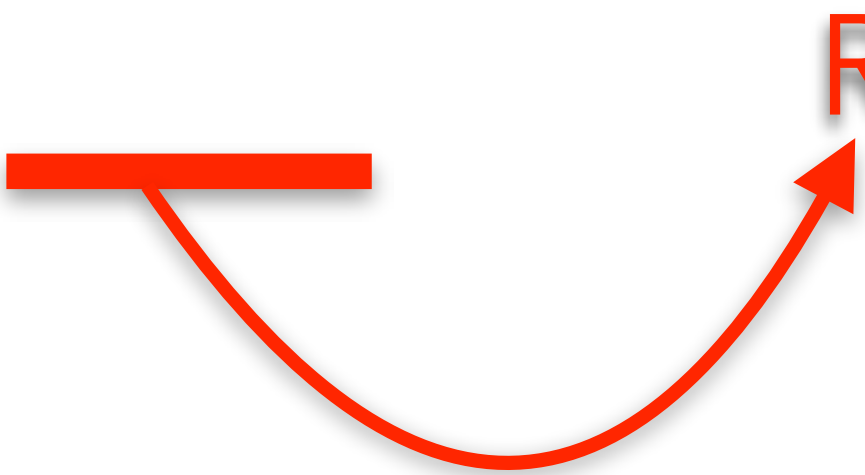



4000

5000

No



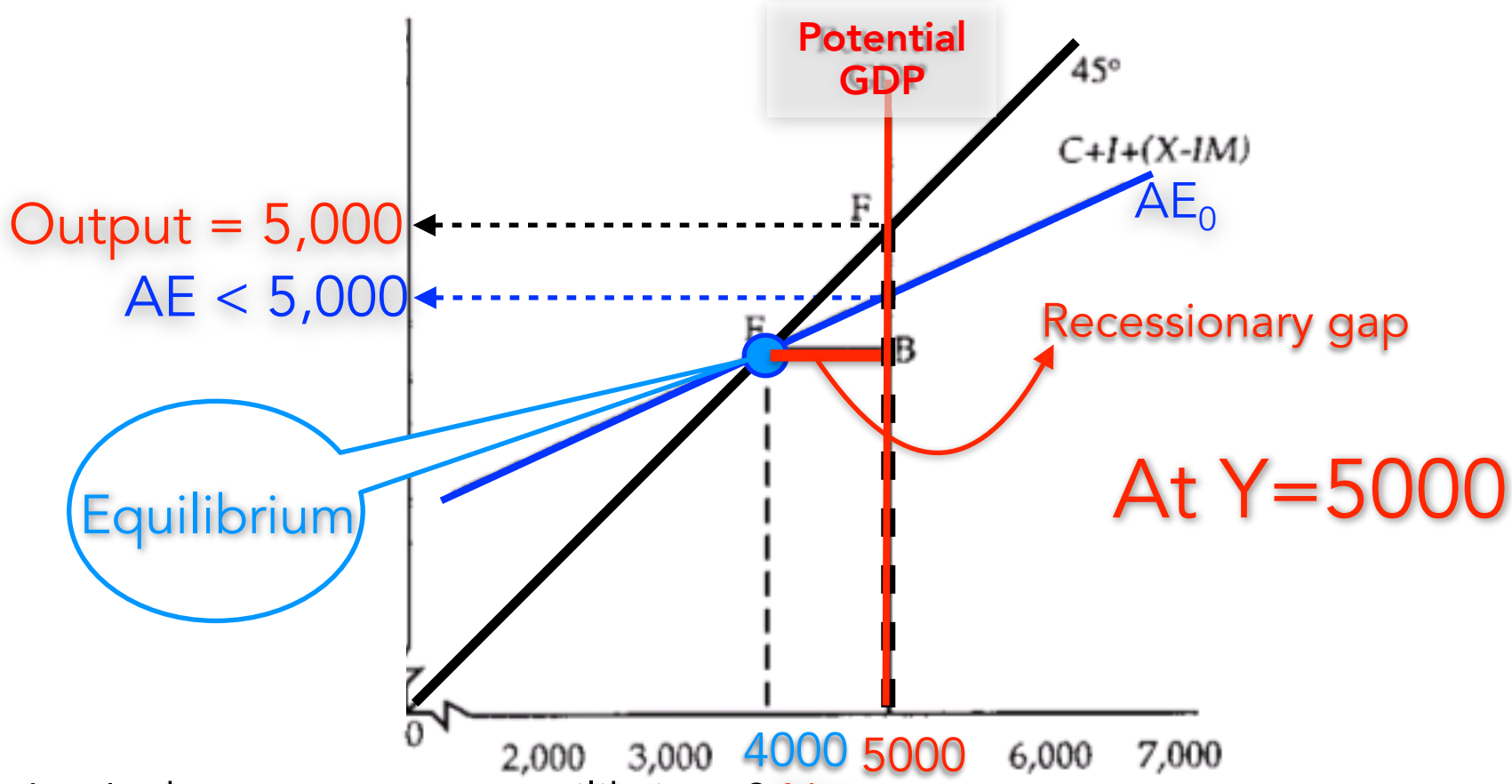


Recessionary gap

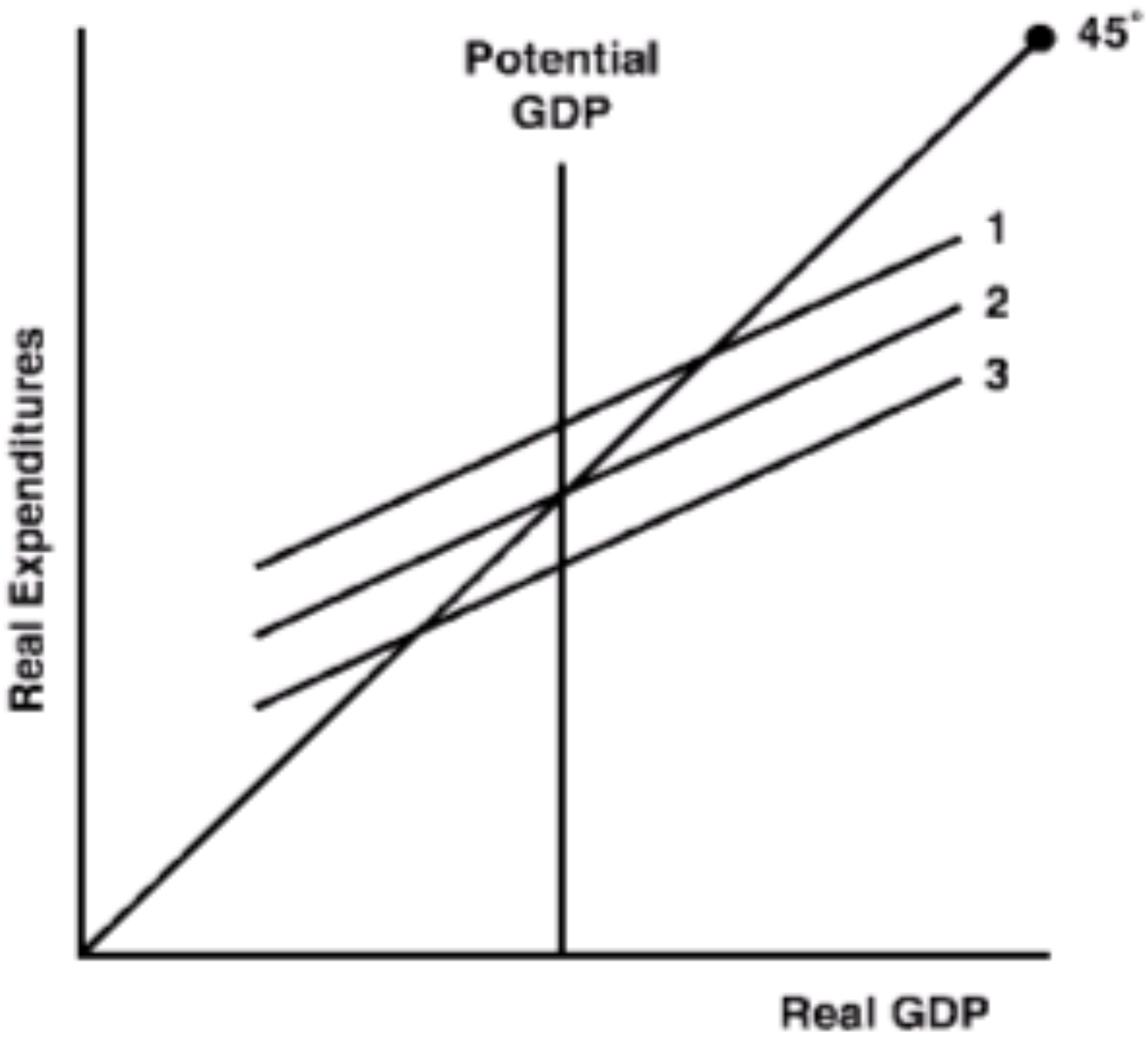
Equilibrium

At Y=5000

Potential GDP



1. Is the economy at equilibrium ? No
2. Total Spending(> = <)Output
3. Inventories (rise, fall, remain the same)
4. Firms will (increase, decrease, not change)output.
5. Once the Economy reaches equilibrium, will the economy experience a (recessionary, inflationary) gap? Size of the Gap = **5000 - 4000 = 1000**
6. At equilibrium the economy experiences (unemployment/labor shortages)


45°
Potential
GDP
1
2
3
Real Expenditures
Real GDP