



A

E



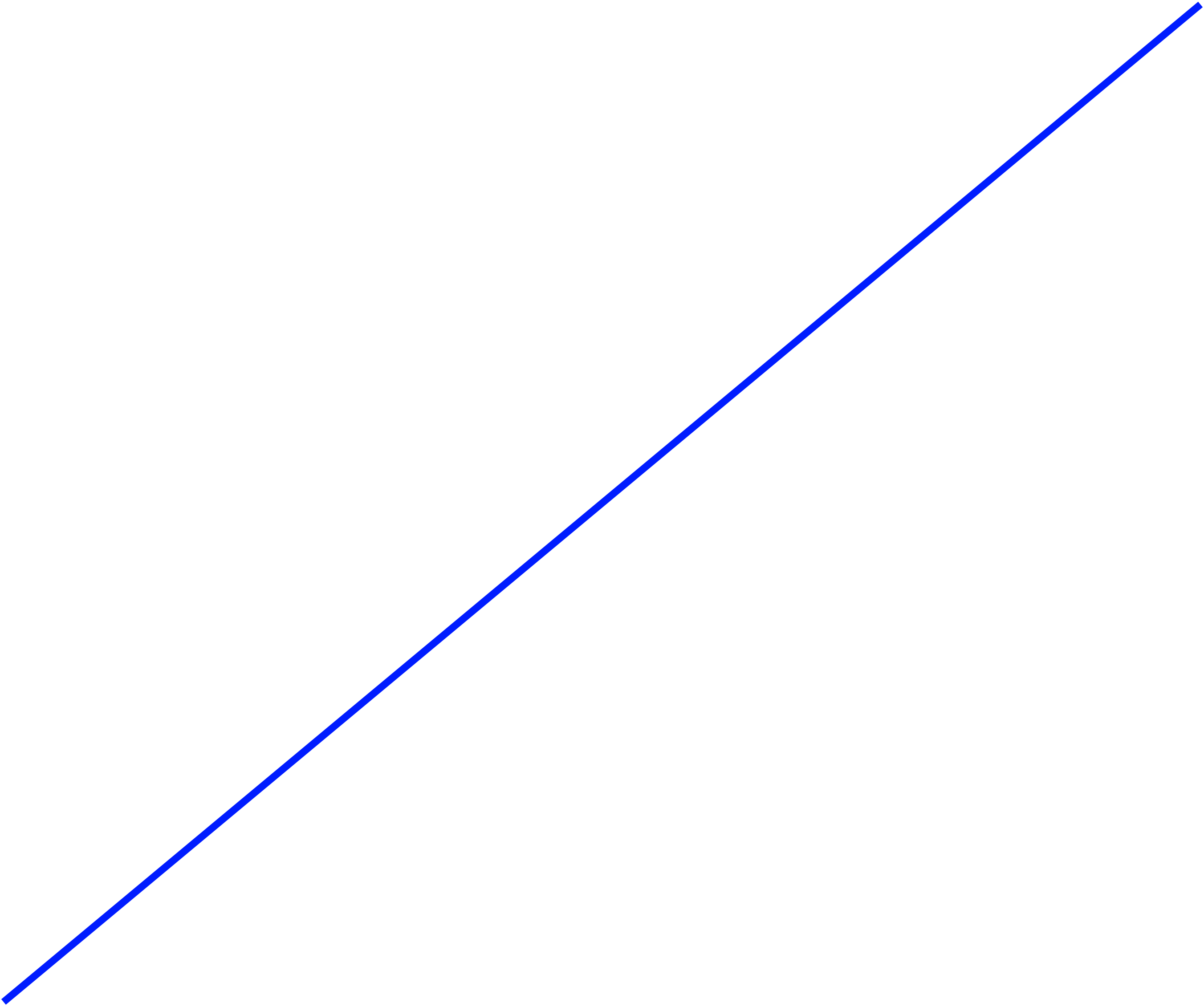


A

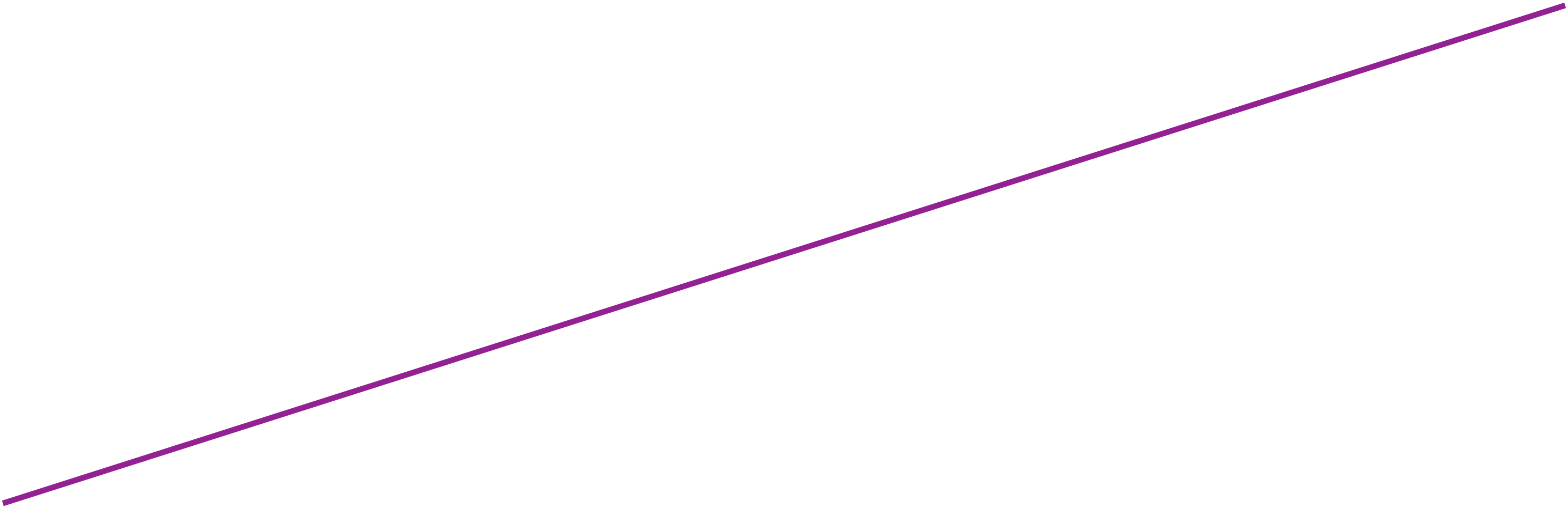
E

Total  
Production









Equilibrium Y

AE

=

Y\*



AE(above)

Y(Production)

AE(below)

Production Y (higher)





For any output level  
below equilibrium

For any output level  
above equilibrium



Inventories

increase

Inventories  
drop





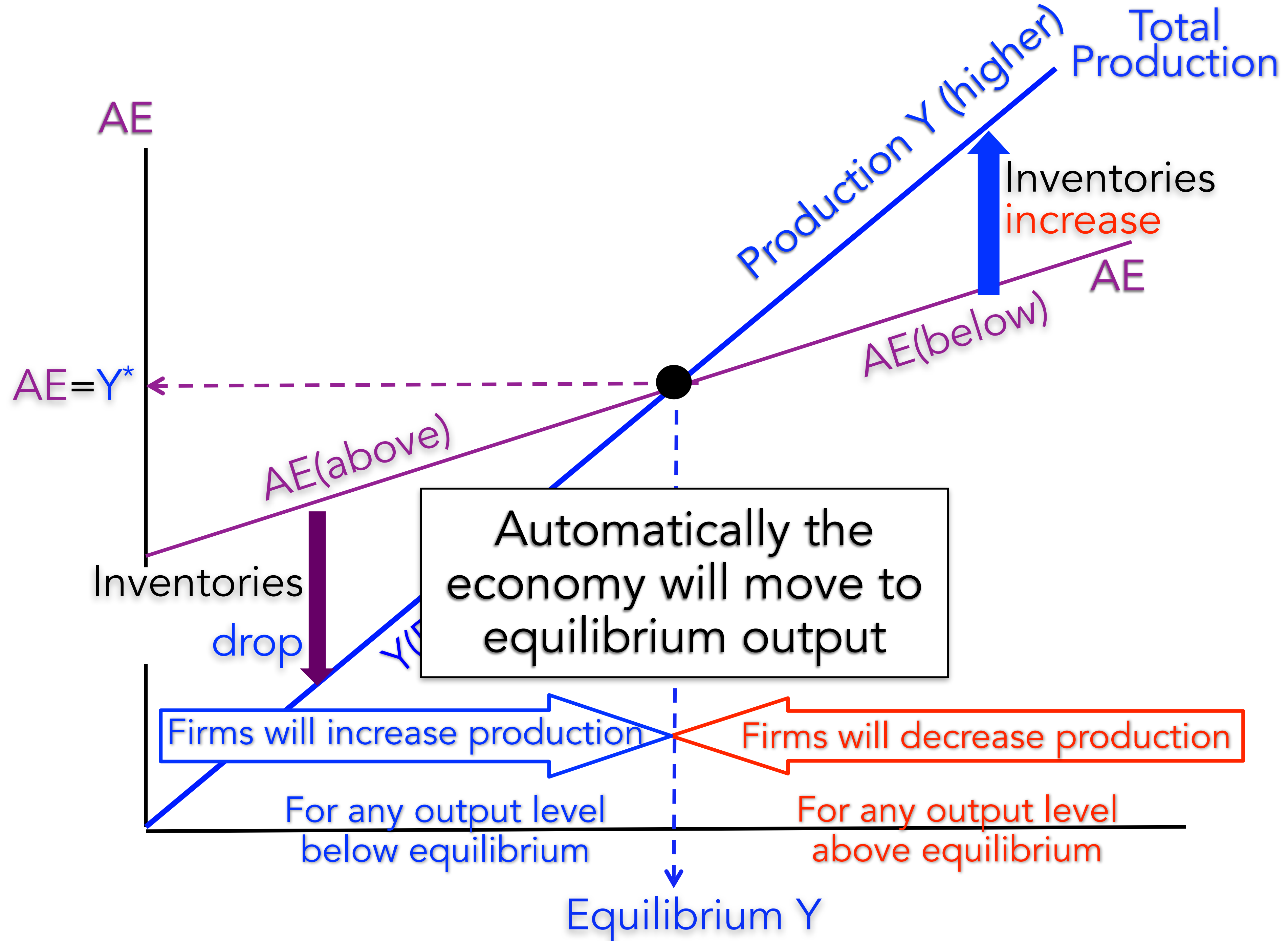
Firms will decrease production



Firms will increase production

Automatically the  
economy will move to  
equilibrium output





An Example with numbers....