AD

AS

Determining Prices and Output: Equilibrium

Price Level
(CPI)

Real GDP

Production (AS) < Total Sales (AD)

Inventories fall

For any Price Level below Pe

Aggregate Supply < Aggregate Demand

Firms increase production and prices

Once prices rise to this level

Aggregate Supply = Aggregate Demand

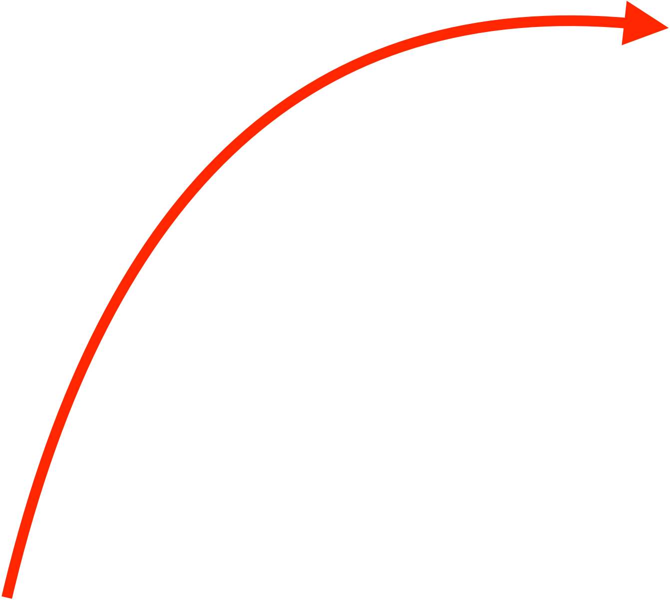
Inventories do not change

The economy is at equilibrium

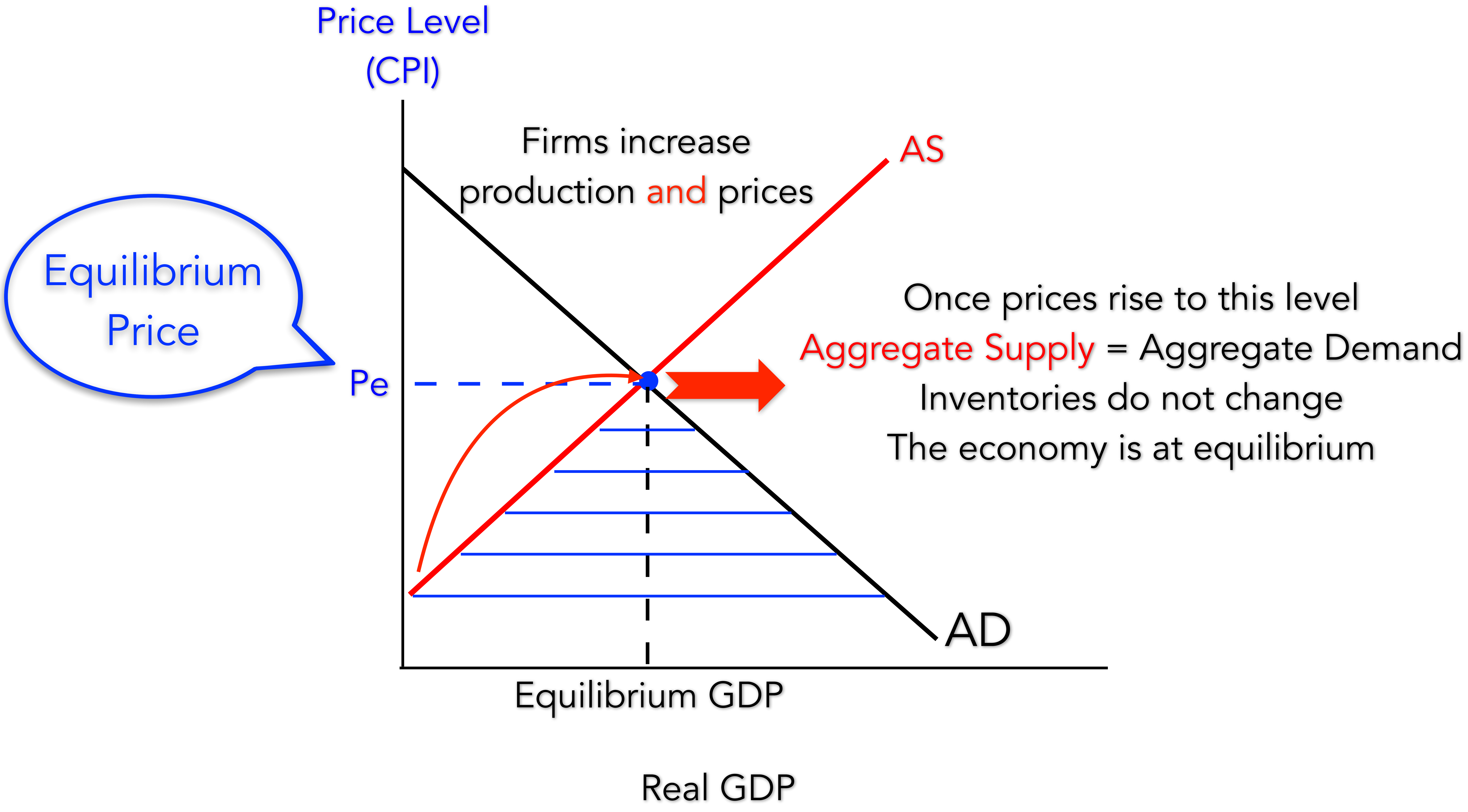
Pe _ _ _ _ _ _

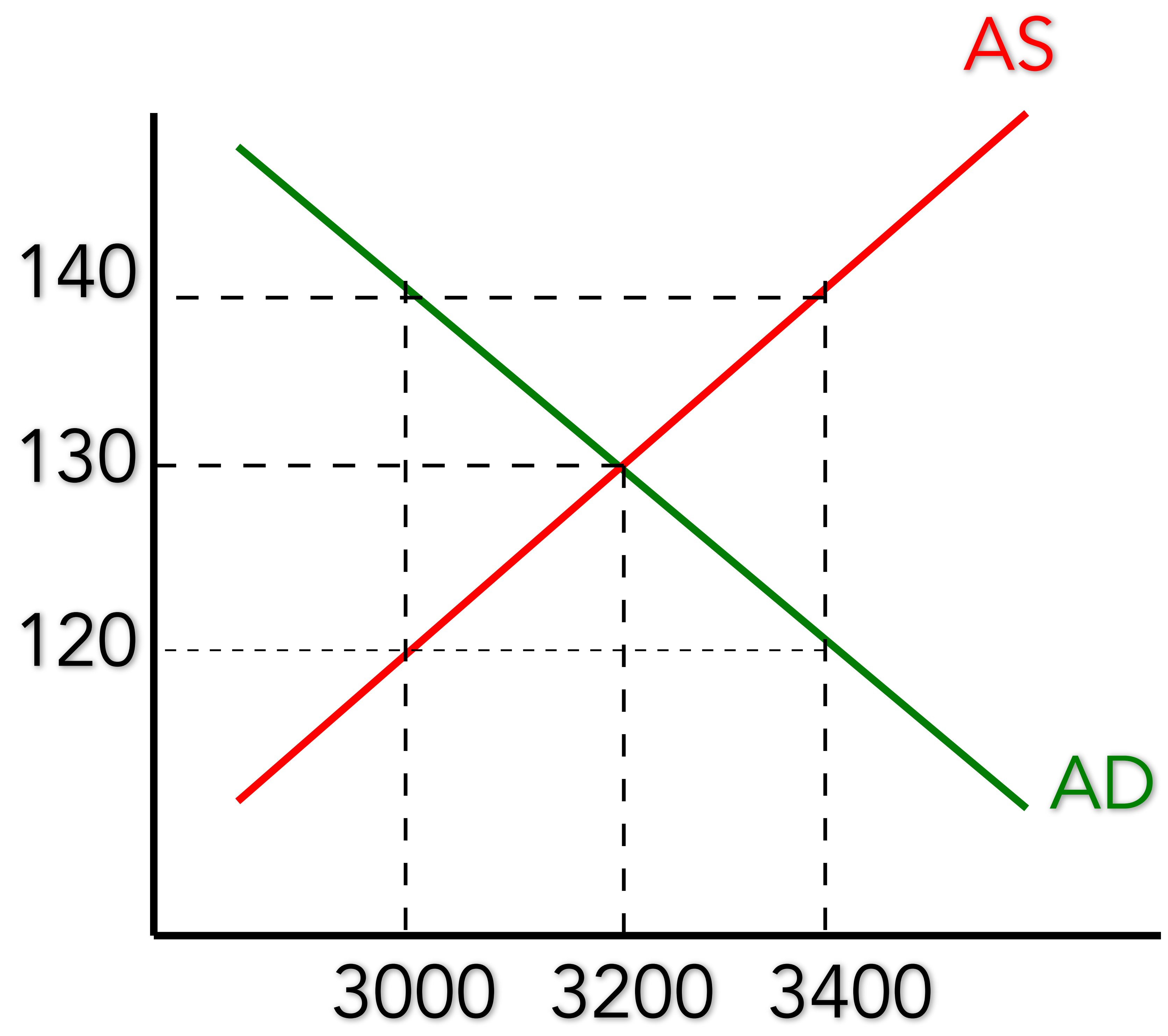
Equilibrium
Price

Equilibrium GDP



Determining Prices and Output: Equilibrium




AS
140
130
120
AD
3000
3200
3400