



=19,000

If total production Y = 5,000





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Change in Inventories =
5,000 - 6,400 = -1,400
(decrease)
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If total production Y = 10,000






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Change in Inventories =
10,000 - 10,900 = -900
(decrease)
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If total production Y = 25,000

Change in Inventories = 25,000 - 24,400 = +600(increase)



Firms increase production

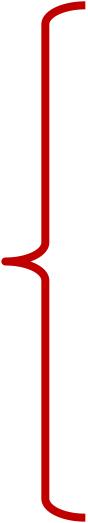


No change in production









Produced = 5,000

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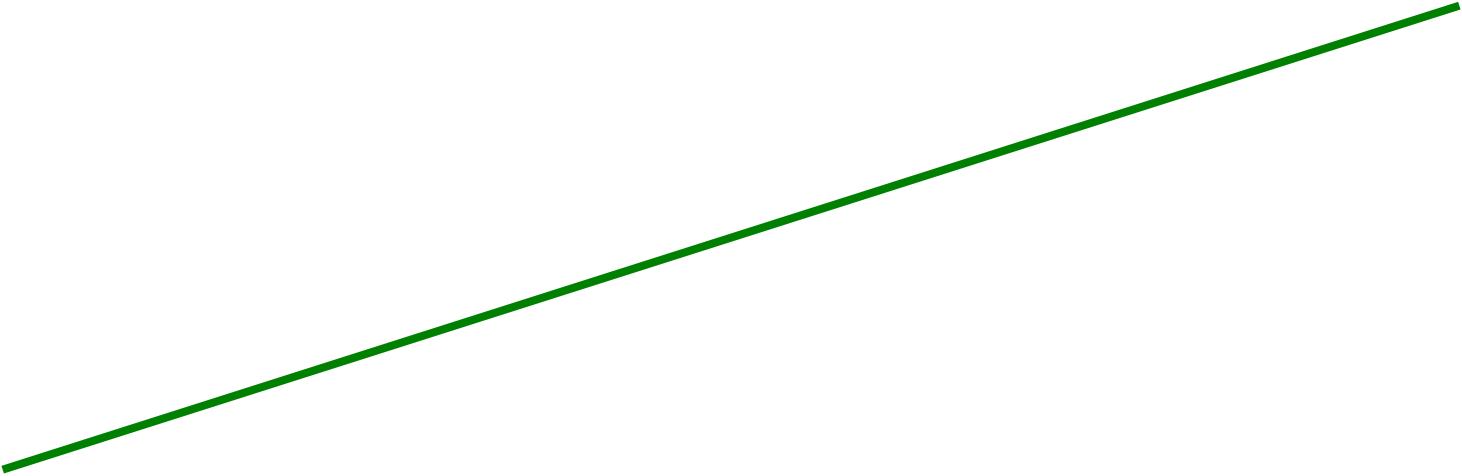
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Change in Inventories =
19,000 - 19,900 = 0 (no
change)
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If total production Y = 19,000





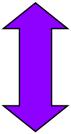












Firms increase production

Firms decrease production

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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

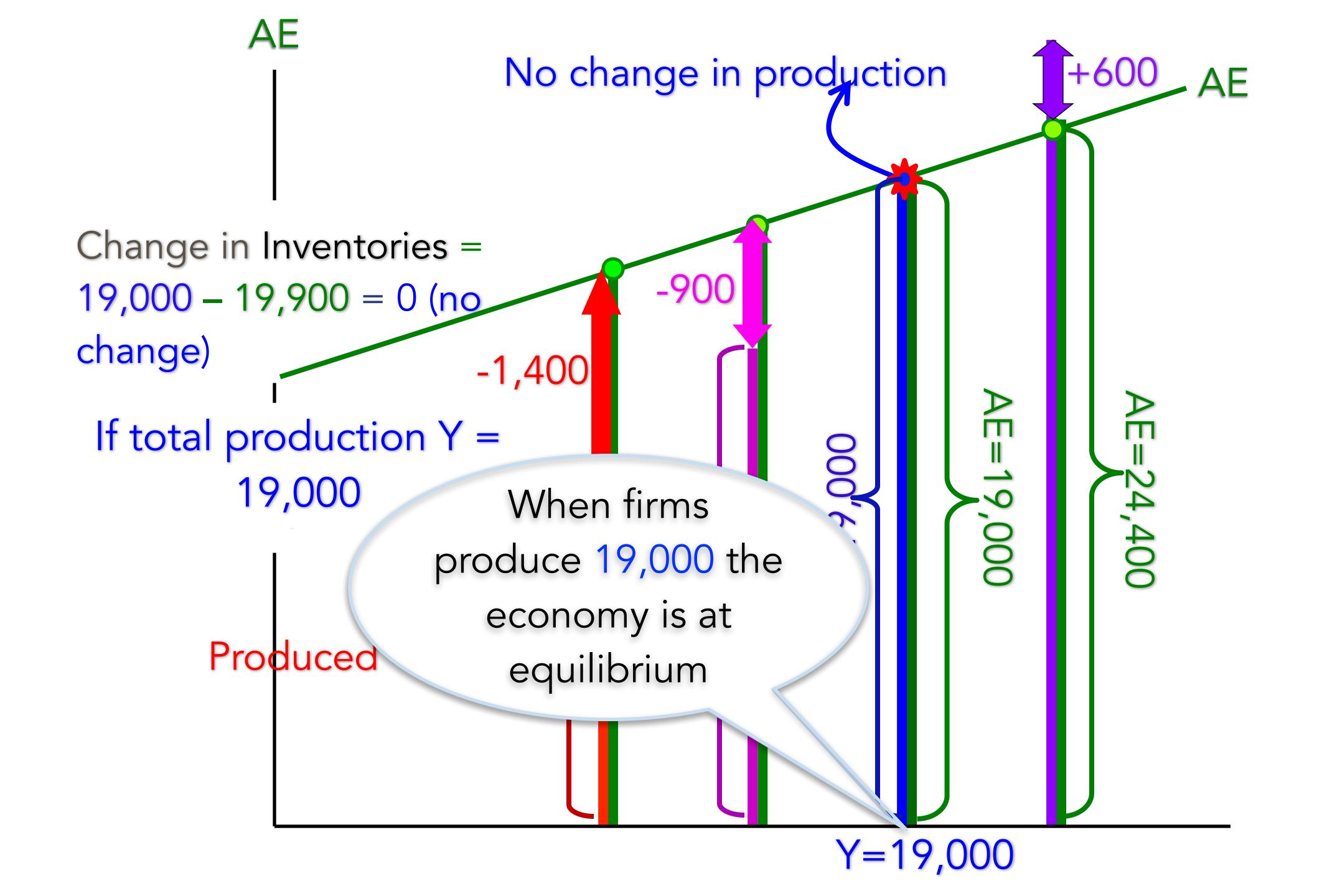
No change in inventories

Produced 19,000 sold 19,000



When firms produce 19,000 the economy is at equilibrium





Where the two lines cross: AE and the 45°

line /

Total Purchases

Total Production

GDP/Income

Equilibrium GDP