

AE





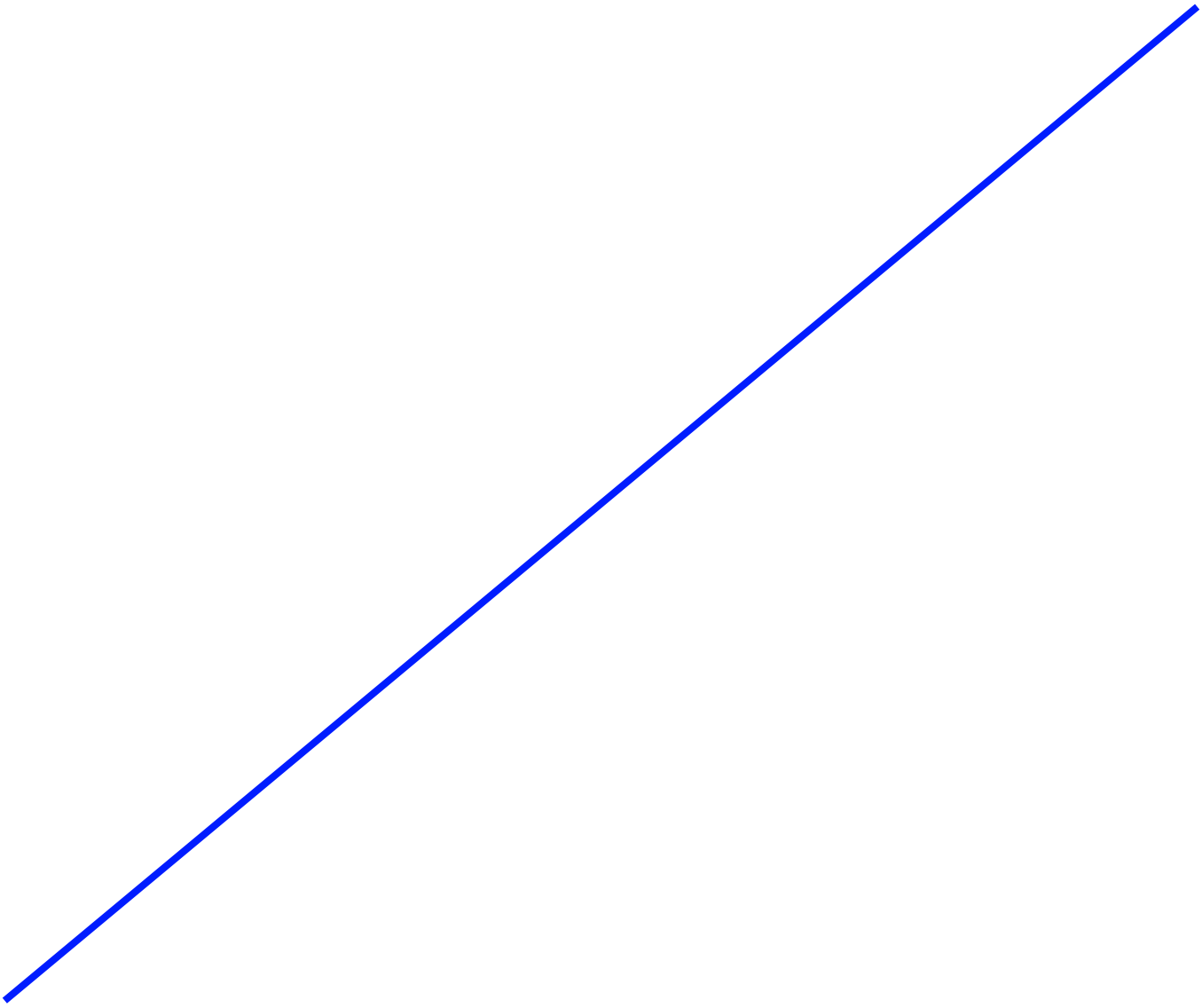
AE

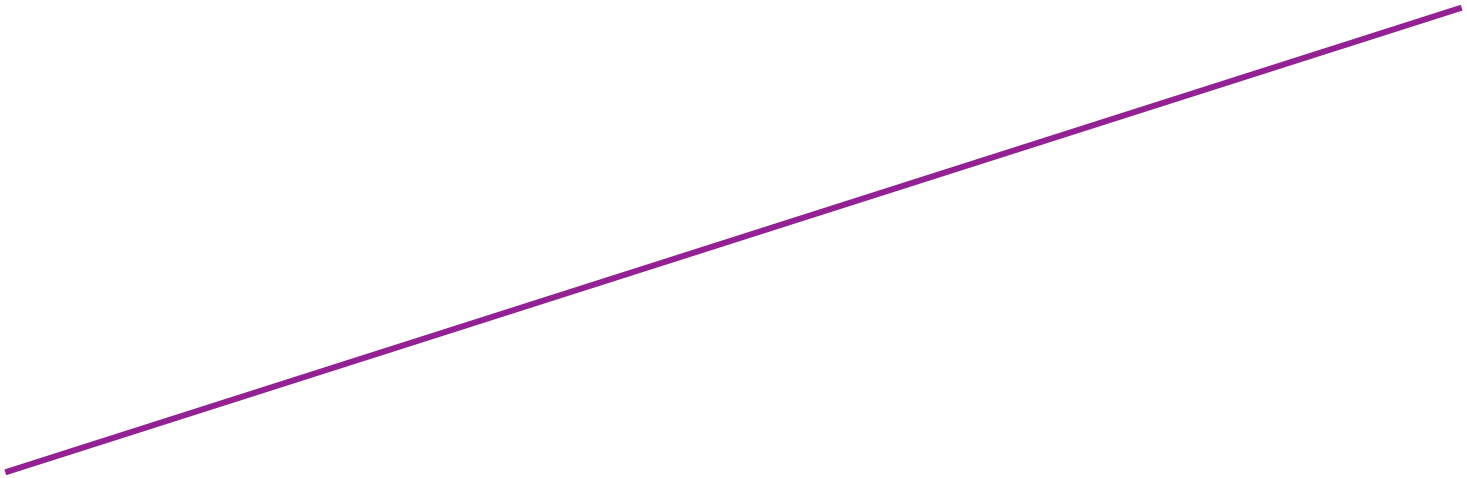
Total
Production

Inventories
Decrease

Inventories
Increase







Total Production (N^*)

AE

=

γ^*



AE (above)

$Y(P)$ production)

AE(below)

Production Y (higher)




Where the two lines cross:


The distance to the 45° line (production) is the same as the distance to the AE line (total sold):



No change in
inventories



$AE = Y^*$ We
sold exactly what we
produced



$AE > Y$ We
sold **more** than we
produced



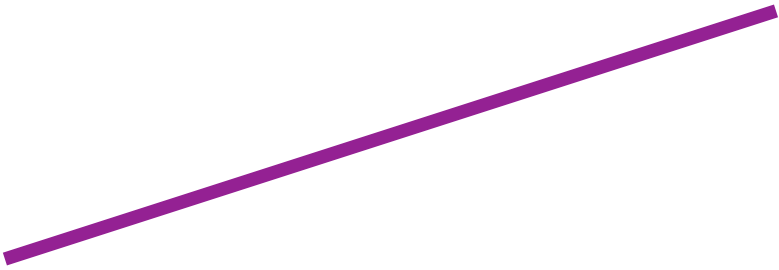
We sold goods that
were in inventory:
inventories **drop**

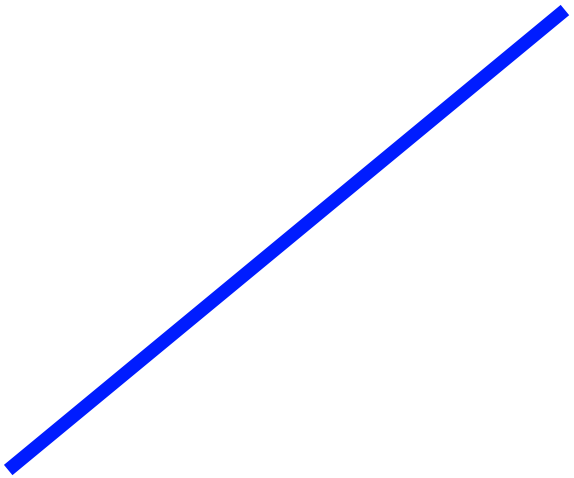
$Y > AE$ We

sold **less** than we
produced

For any output level below Y^*

For any output level above Y^*







$Y - AE = \text{increase}$
 in inventories

$$Y - AE = \text{drop}$$

in inventories





We could not sell all
we produced: Inventories
increase

