

AD

AS

Determining Prices and Output: Equilibrium

Price Level
(CPI)



Real GDP

Production (AS) > Total Sales (AD)

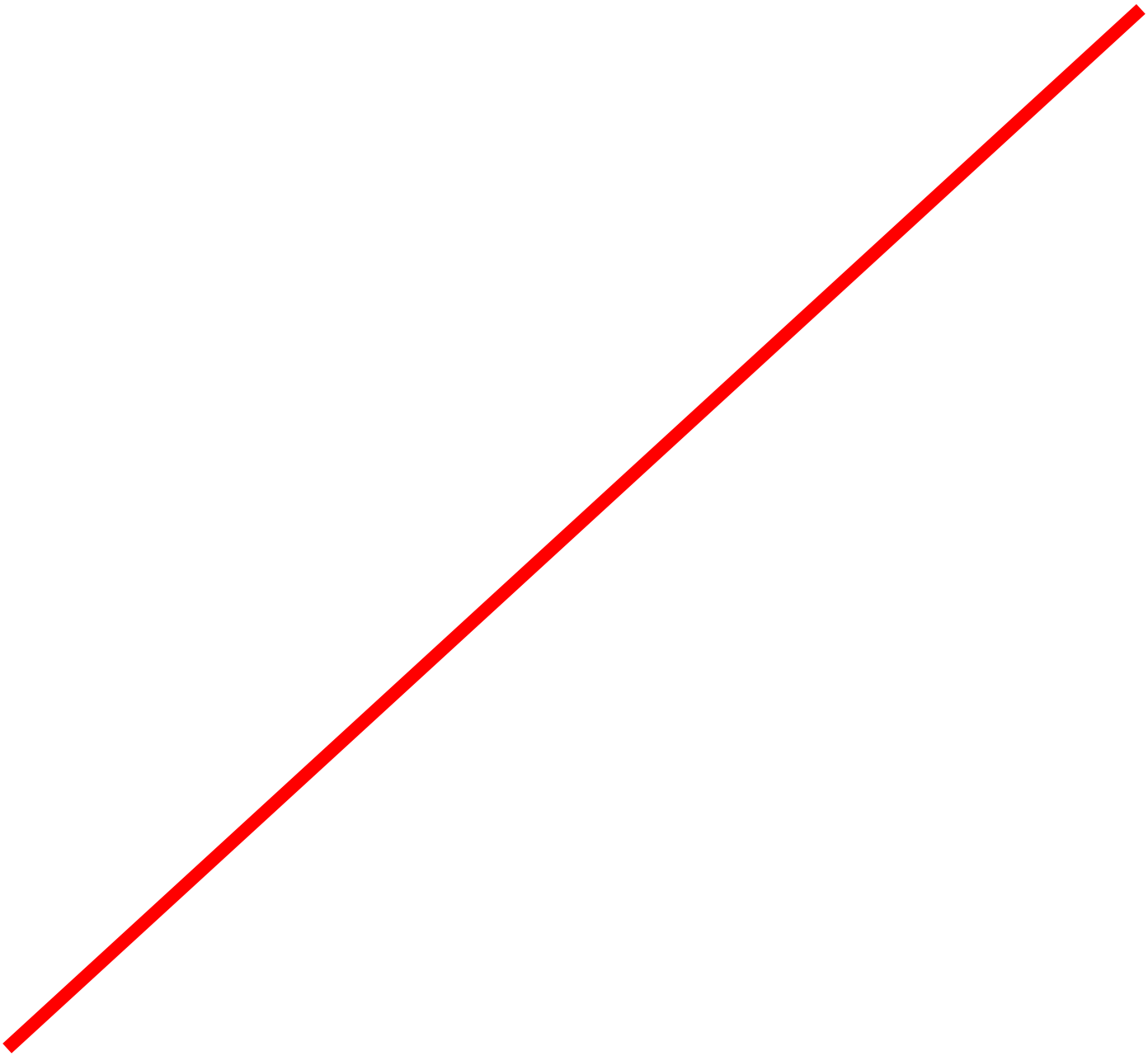
Inventories rise

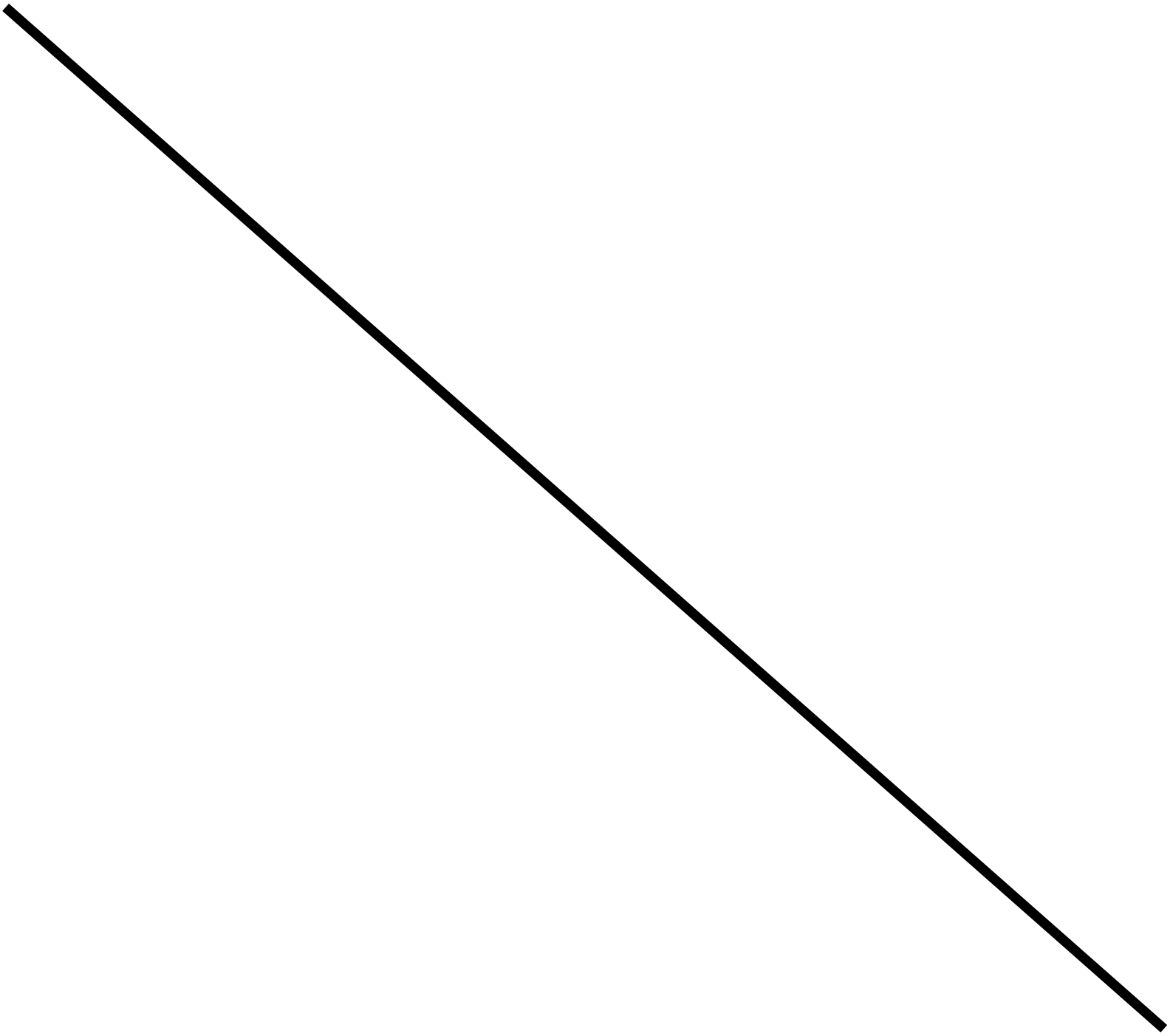
For any Price Level ABOVE P_e

Aggregate Supply $>$ Aggregate Demand



Firms decrease
production and prices









Once prices drop to this level

Aggregate Supply = Aggregate Demand

Inventories do not change

The economy is at equilibrium

Pe

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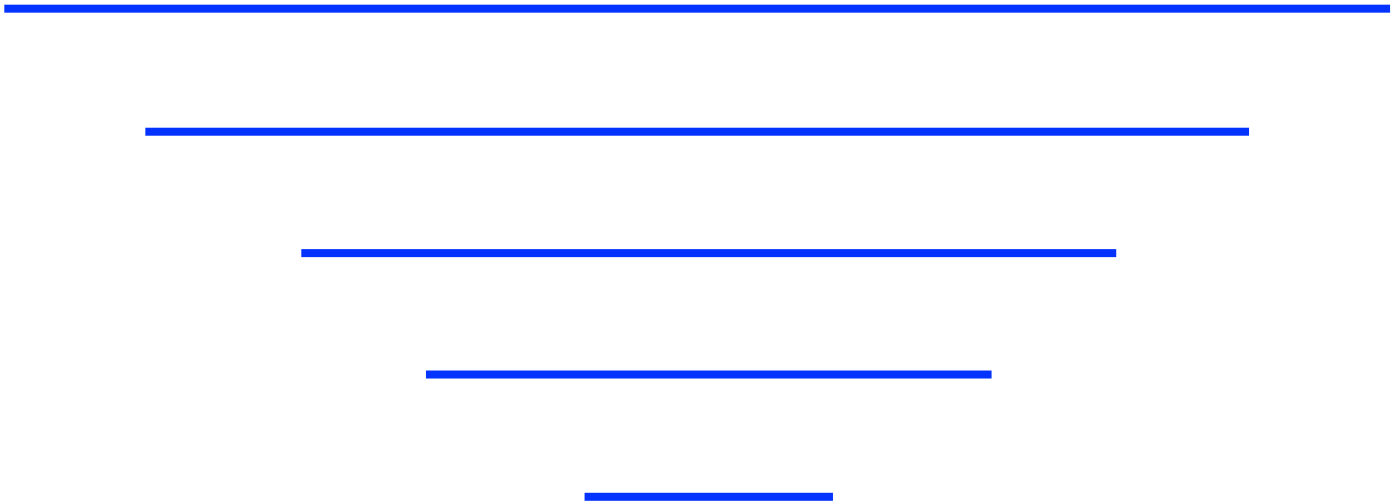
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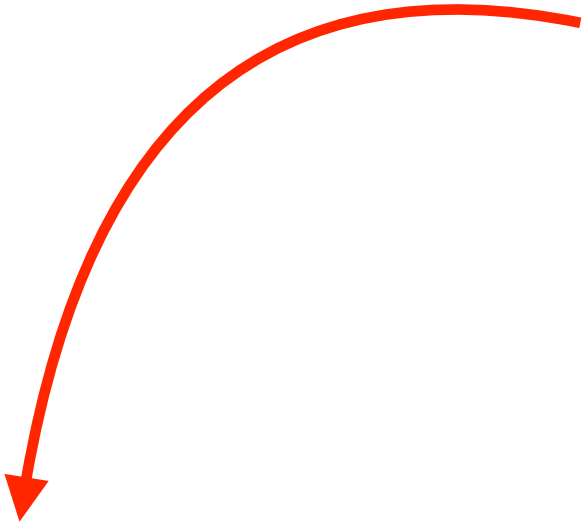


Equilibrium
Price

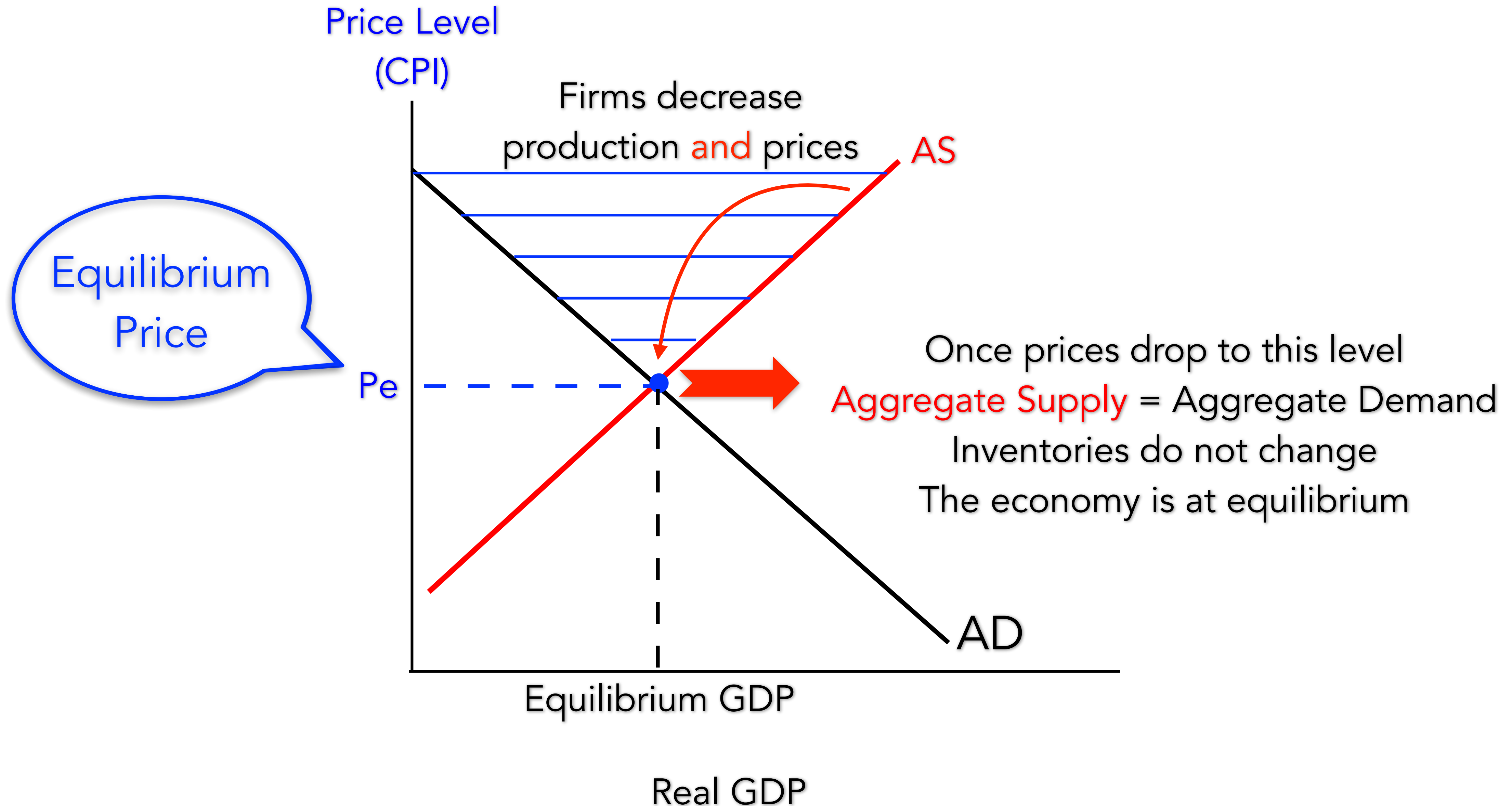


Equilibrium GDP





Determining Prices and Output: Equilibrium



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