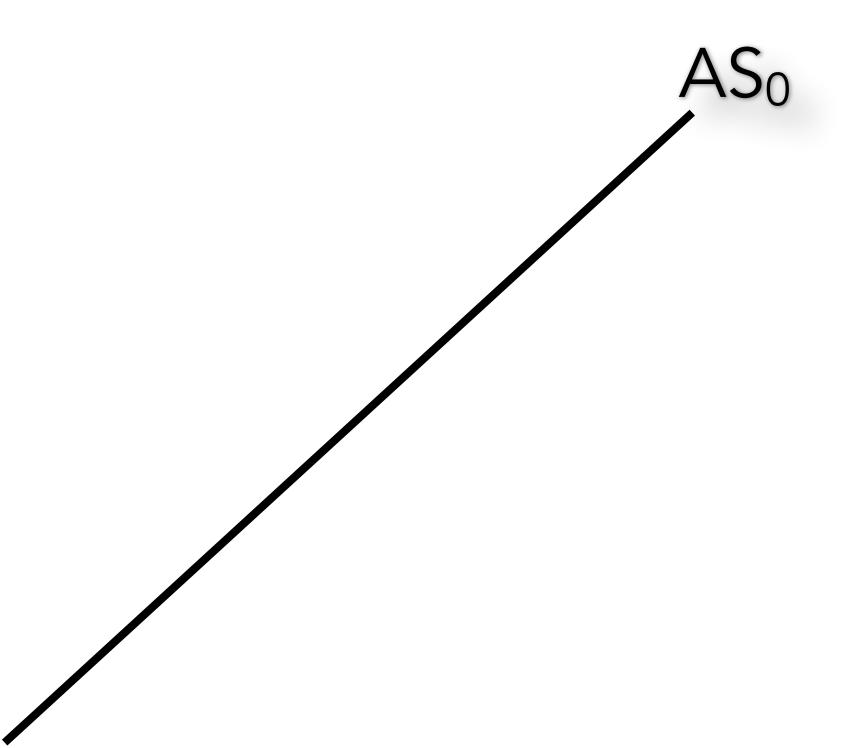


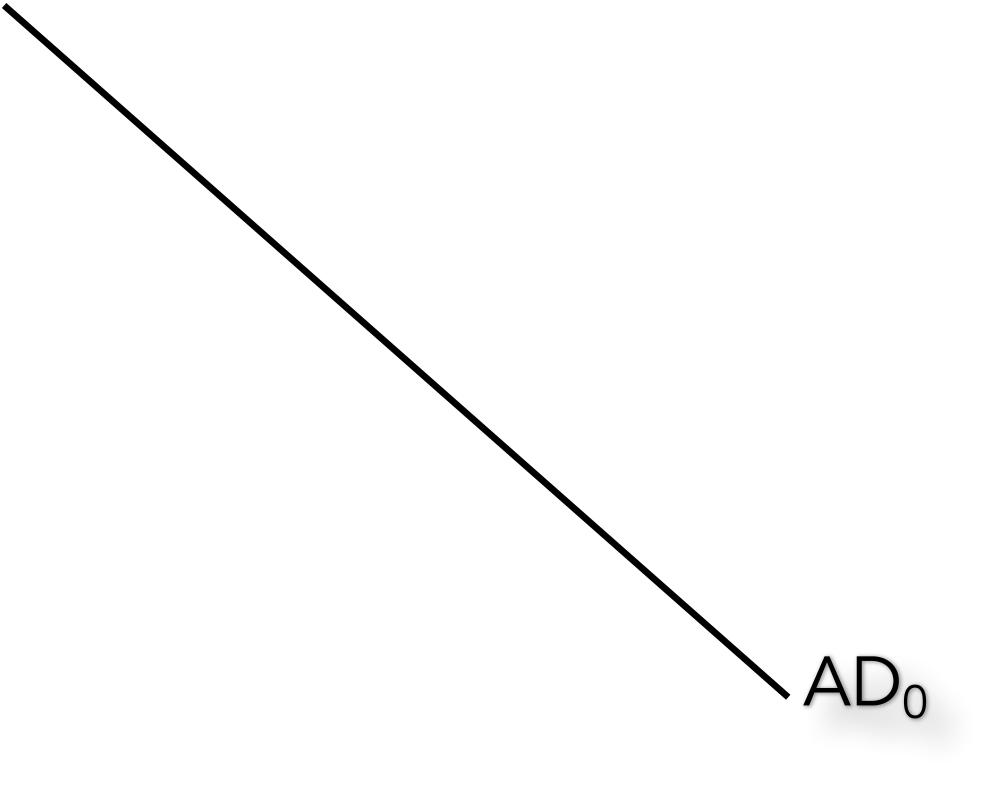


P<sub>1</sub> -----

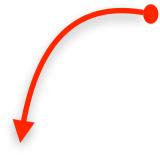


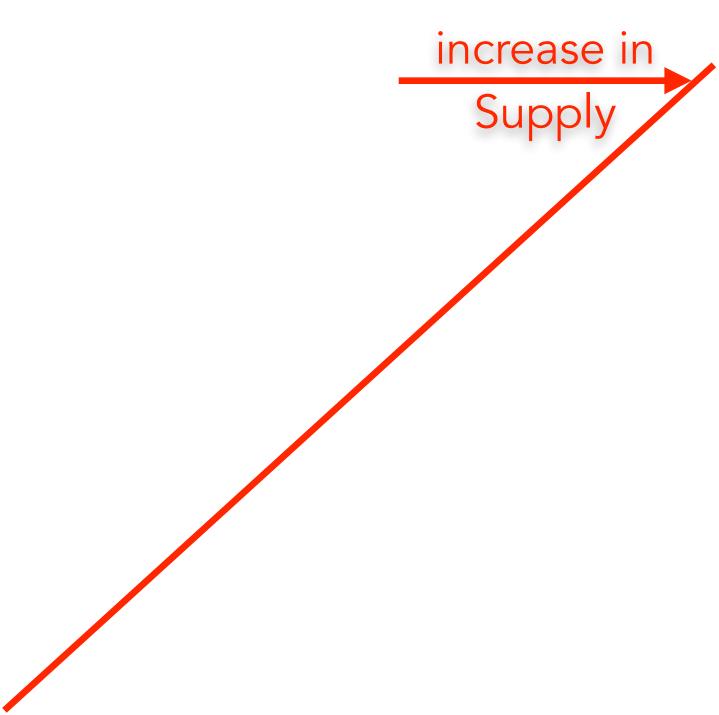
## Firms decrease production and prices





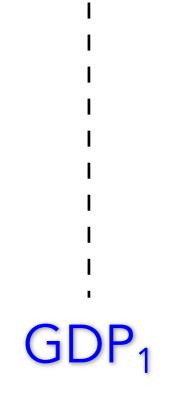


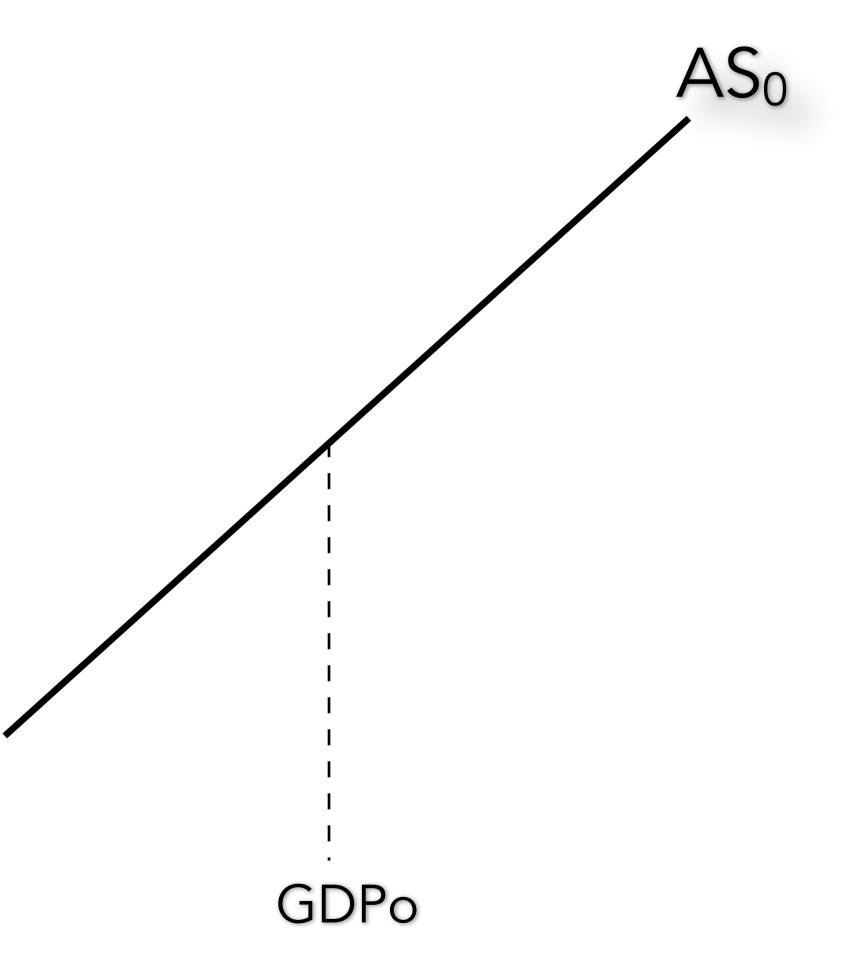






Aggregate Demand when prices = Po



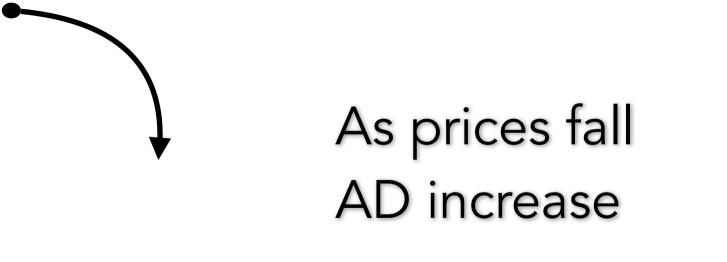


### Inventories Rise



## Increase in GDP smaller than the

increase in AS



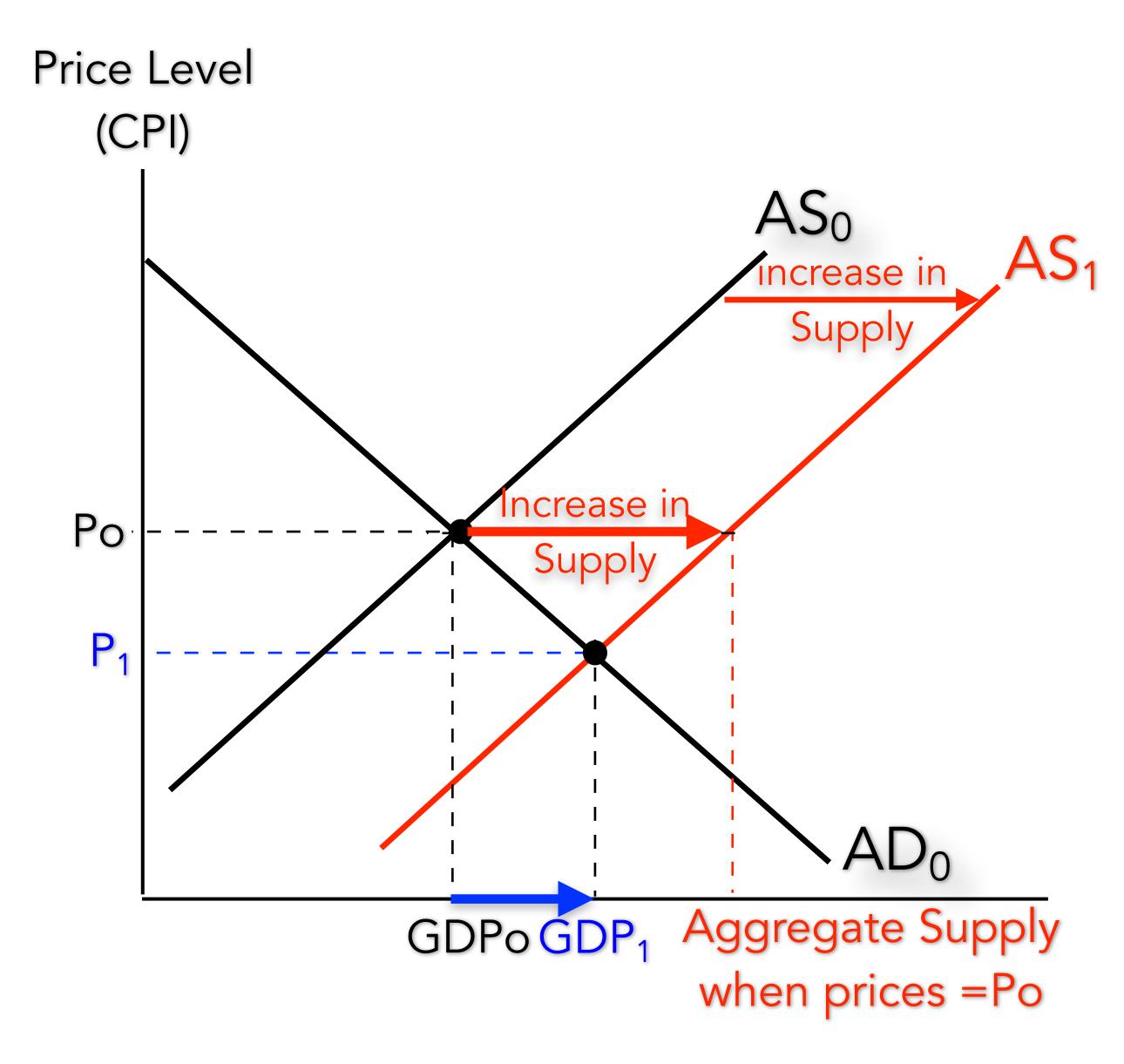
#### Price Level (CPI)

# The Effect of an Increase in Supply

Aggregate Supply when prices =Po



## The Effect of an Increase in Supply



Firms decrease production and prices

Increase in GDP smaller than the increase in AS