

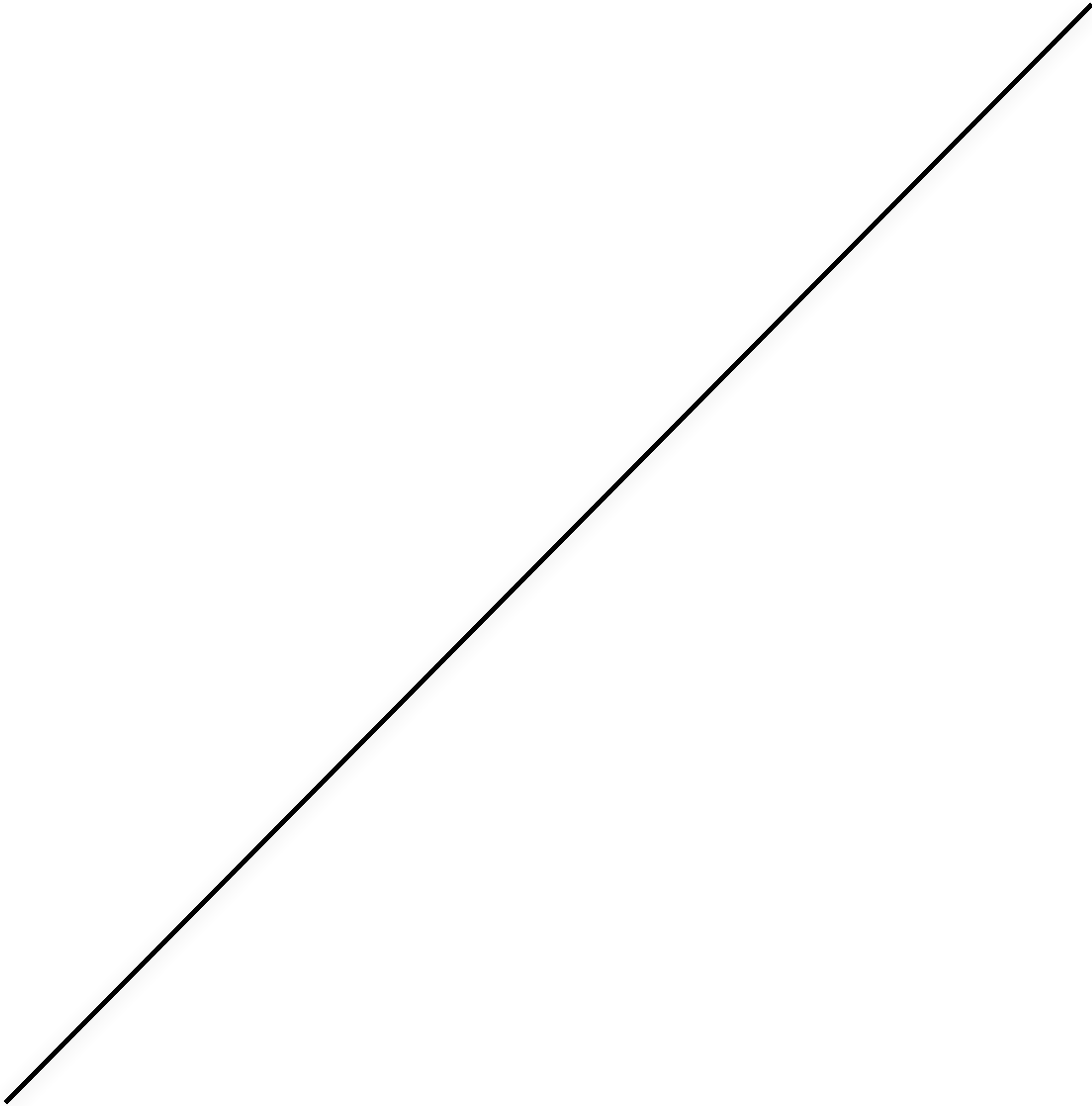
A

E



Equilibrium GDP



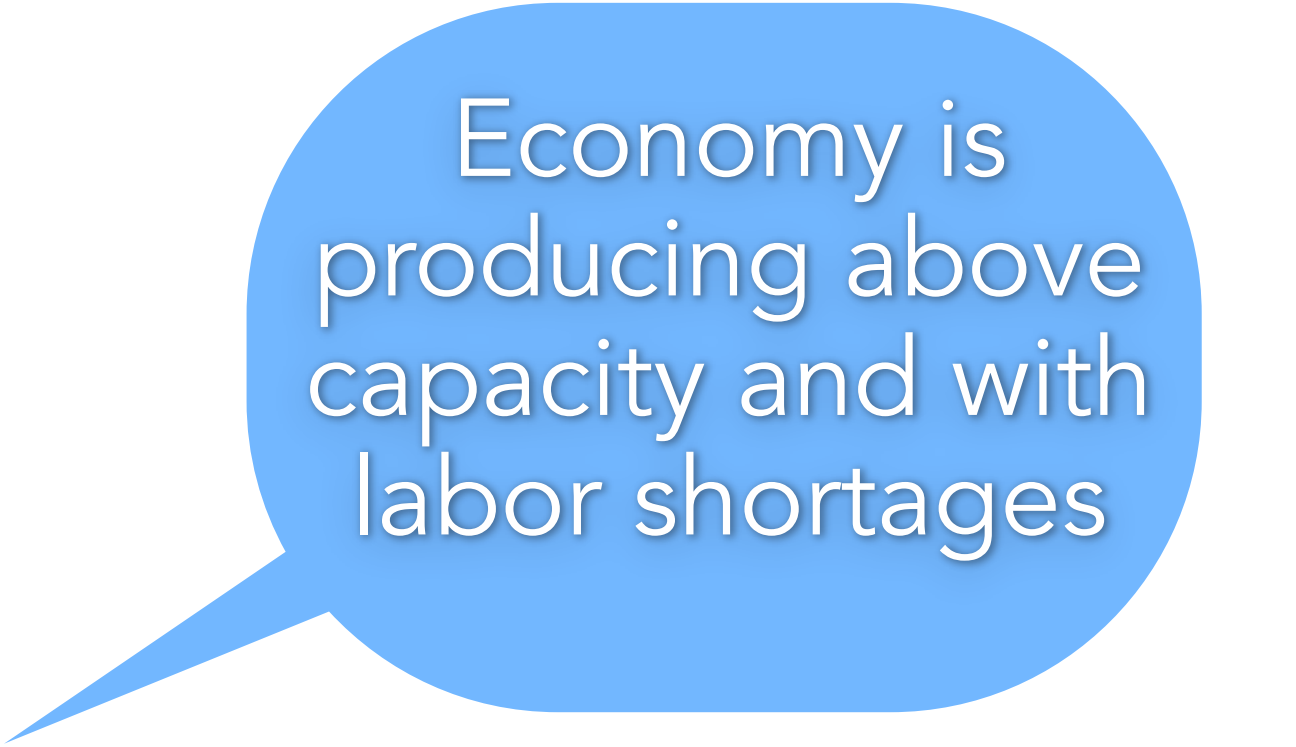


Equilibrium



AE₀

Potential GDP



Economy is
producing above
capacity and with
labor shortages

45°

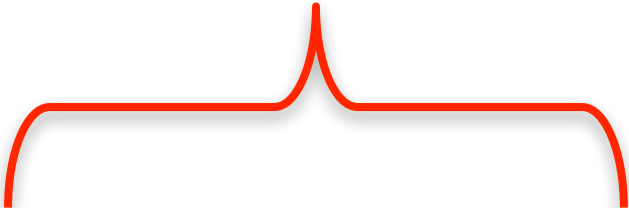


Potential GDP



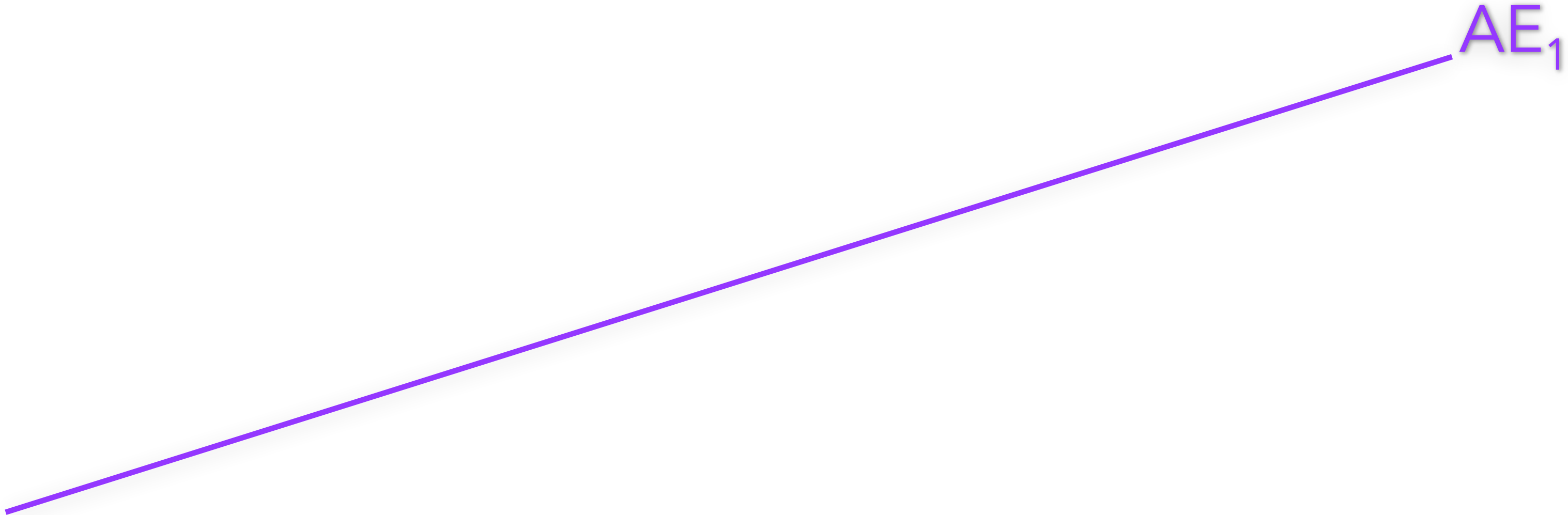
A red speech bubble with a white drop shadow, pointing downwards and to the left. The text is centered inside the bubble.

Rising Costs
and prices:
Inflationary
Gap



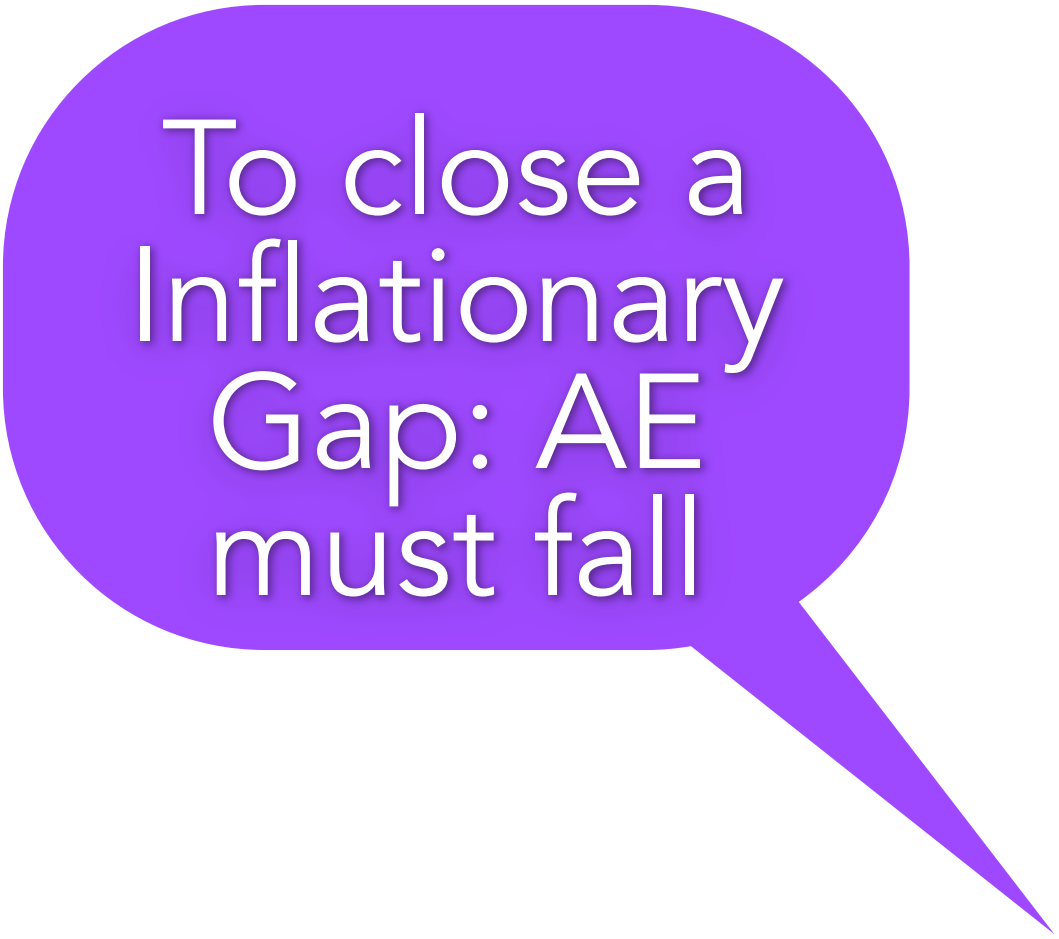








New Equilibrium
= Potential GDP



To close a
Inflationary
Gap: AE
must fall

