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AD

AS

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Aggregate Demand
when prices = P_o

Determining Prices and Output: **Aggregate Supply** and **Aggregate Demand**

Price Level
(CPI)



Real GDP

At this price level

Aggregate Supply < Aggregate Demand

Production (AS) < Total Sales (AD)

Inventories fall

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Aggregate Supply
when prices = P_o

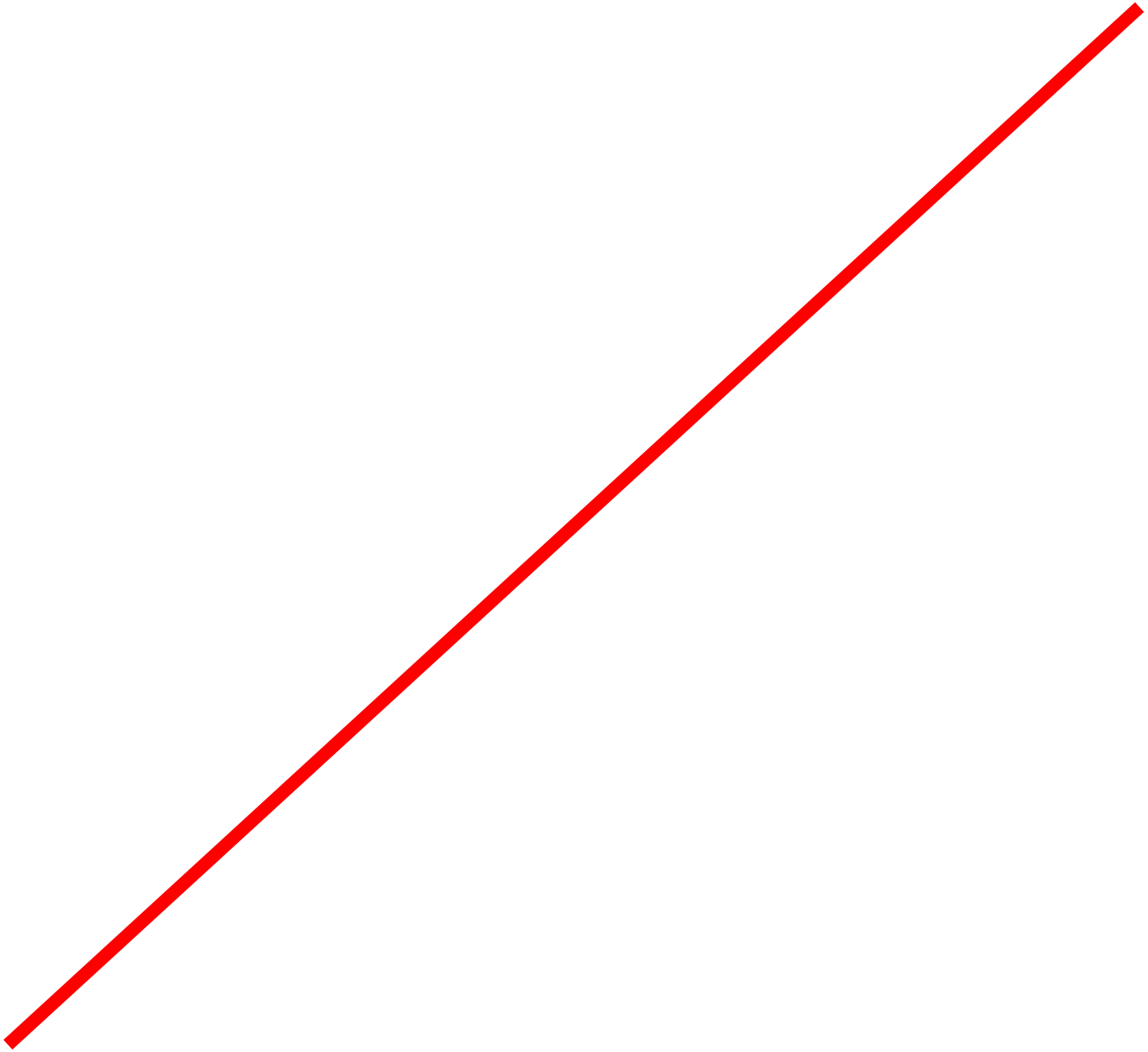


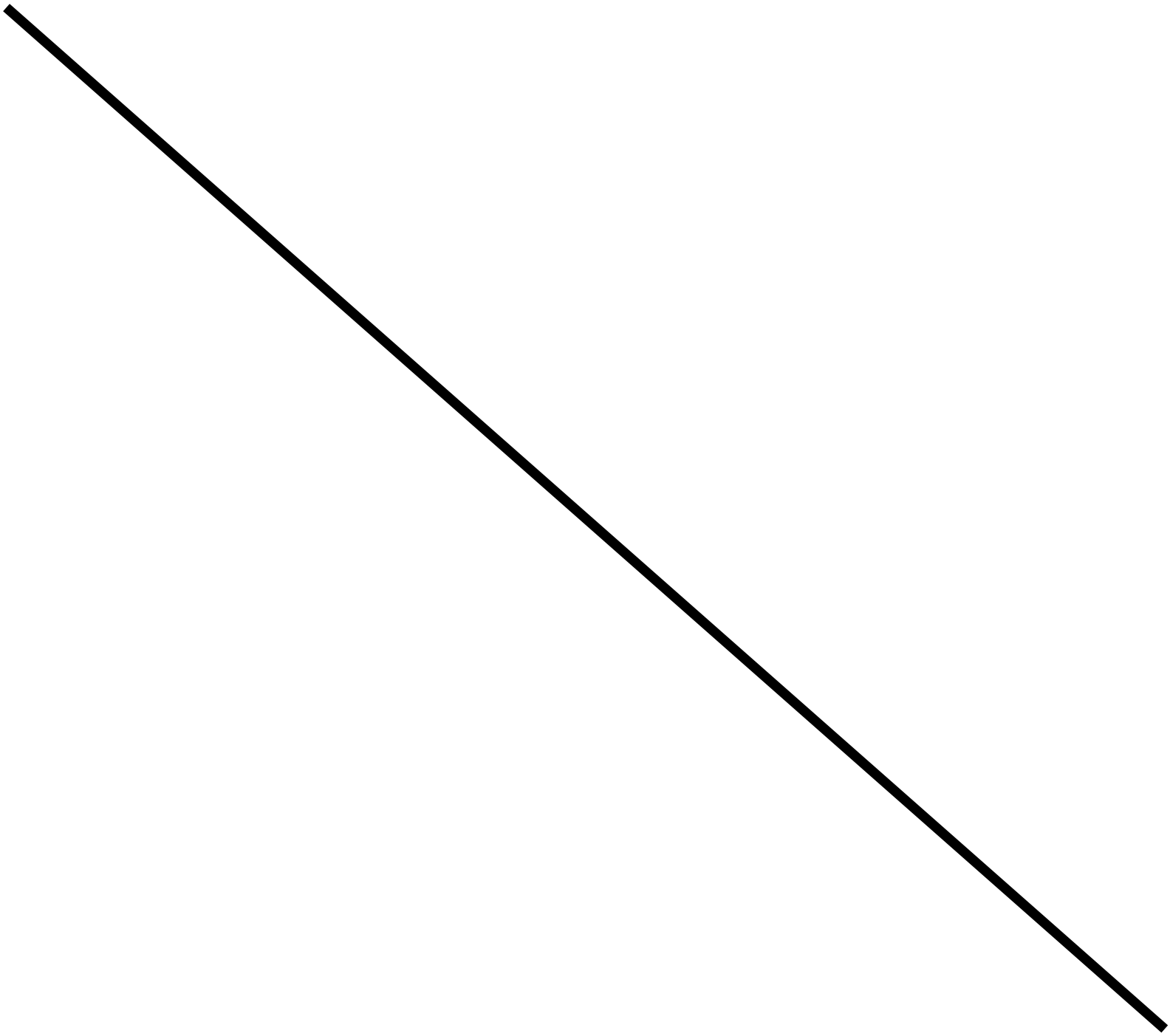
Firms increase

production and prices

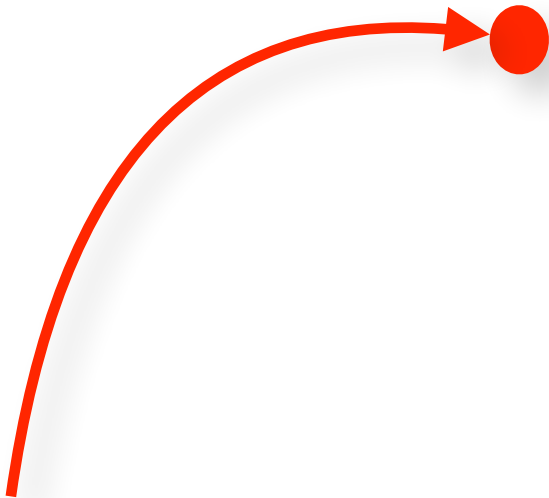
As prices rise

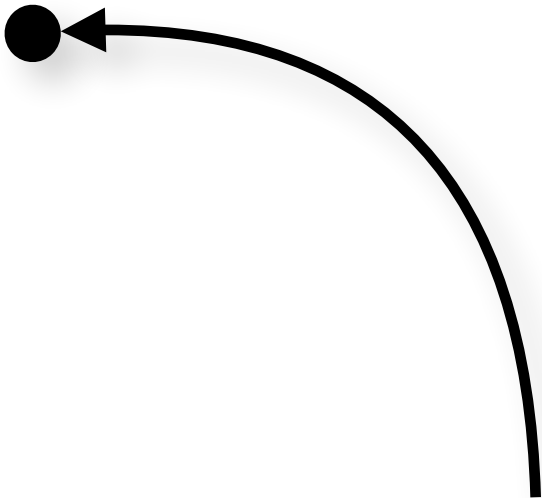
AD decrease













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Once prices rise to this level

Aggregate Supply = Aggregate Demand

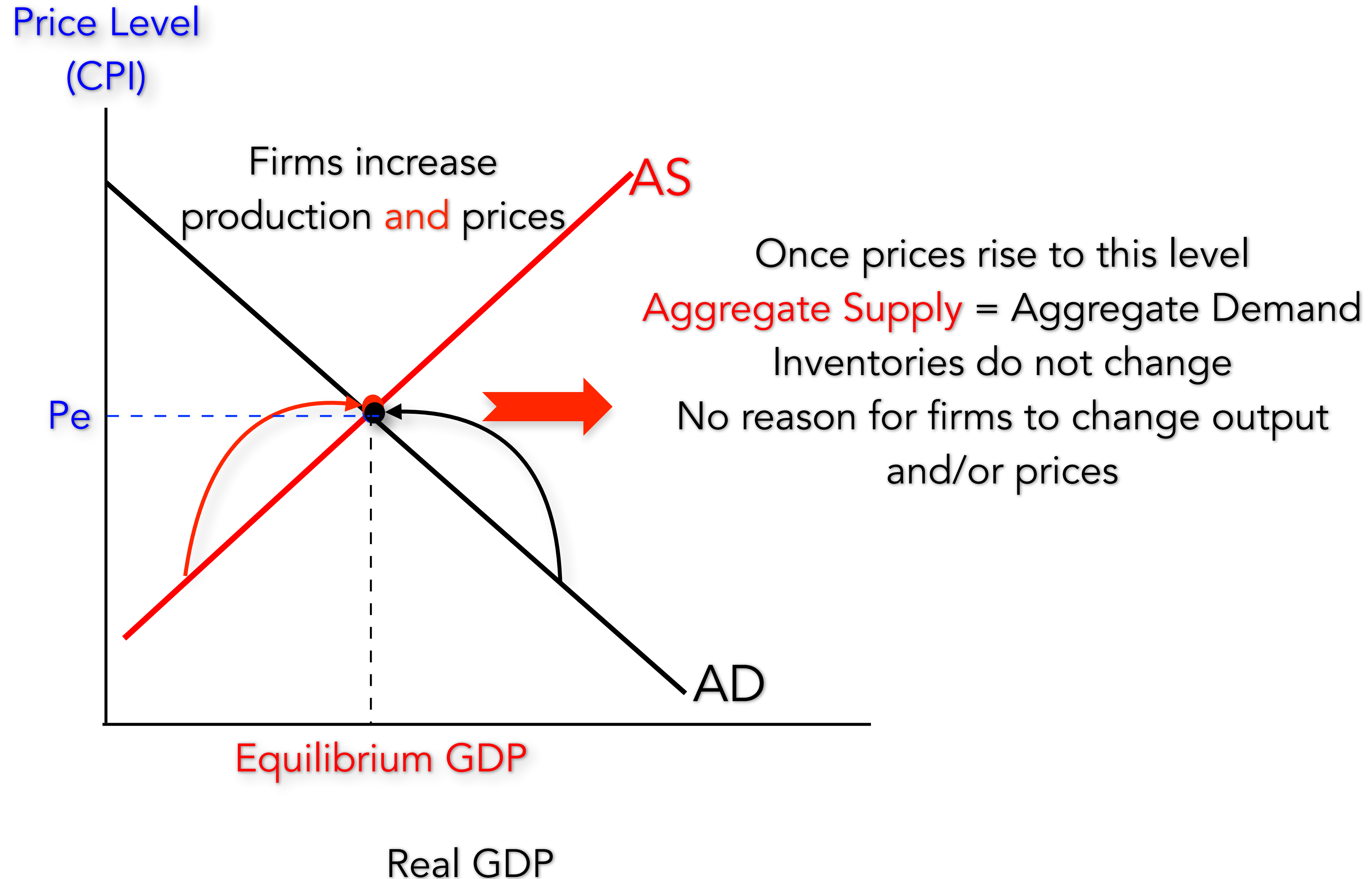
Inventories do not change

No reason for firms to change output
and/or prices



Equilibrium GDP

Determining Prices and Output: **Aggregate Supply** and **Aggregate Demand**



Determining Prices and Output: Equilibrium

