

**A**

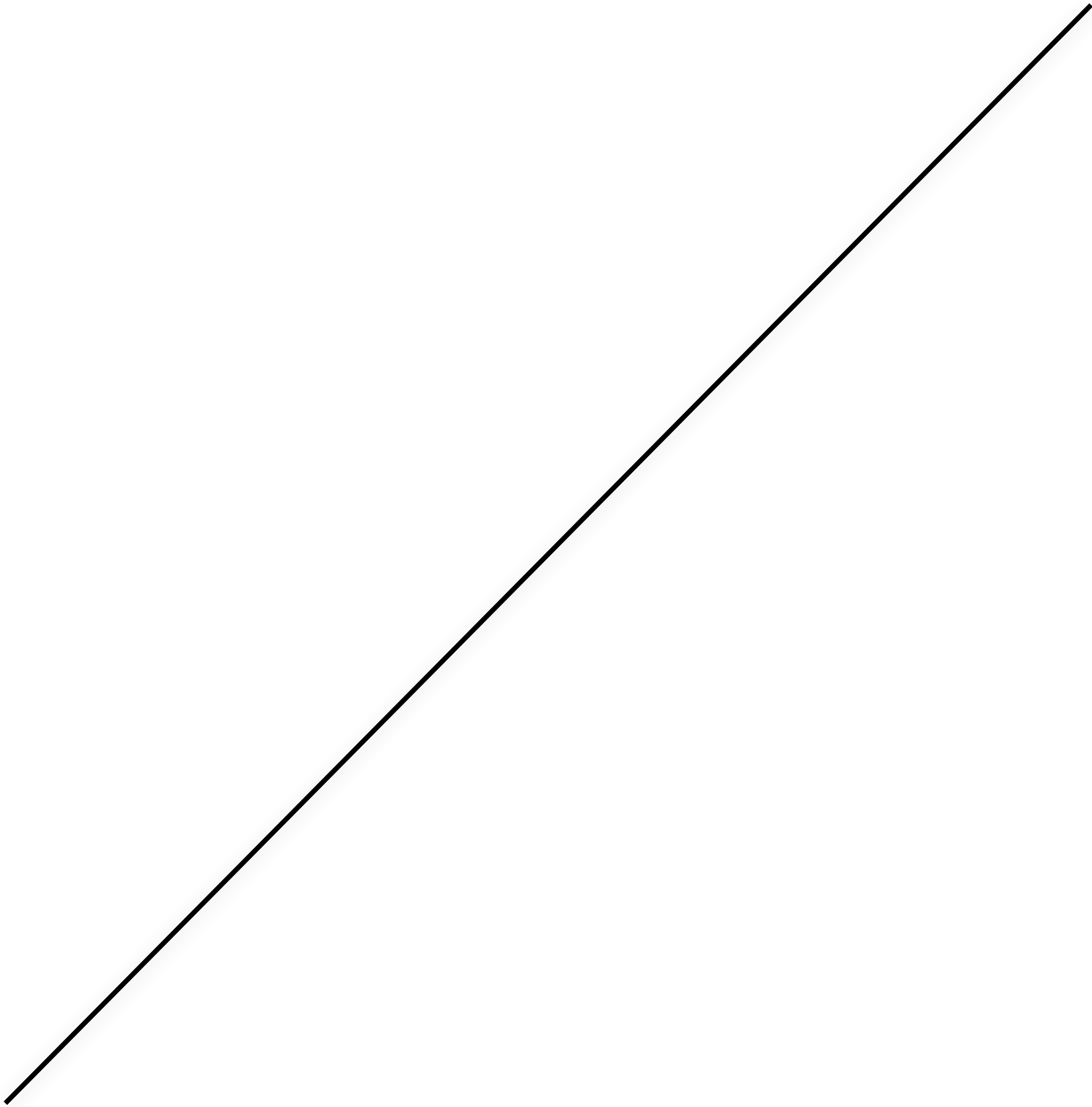
**E**



Equilibrium GDP

6,000







# Equilibrium




AE

Potential GDP

7,000

$$7,000 - 6,000 = 1,000$$



Economy is  
producing **less** than  
desired:  
Unemployment and  
excess capacity





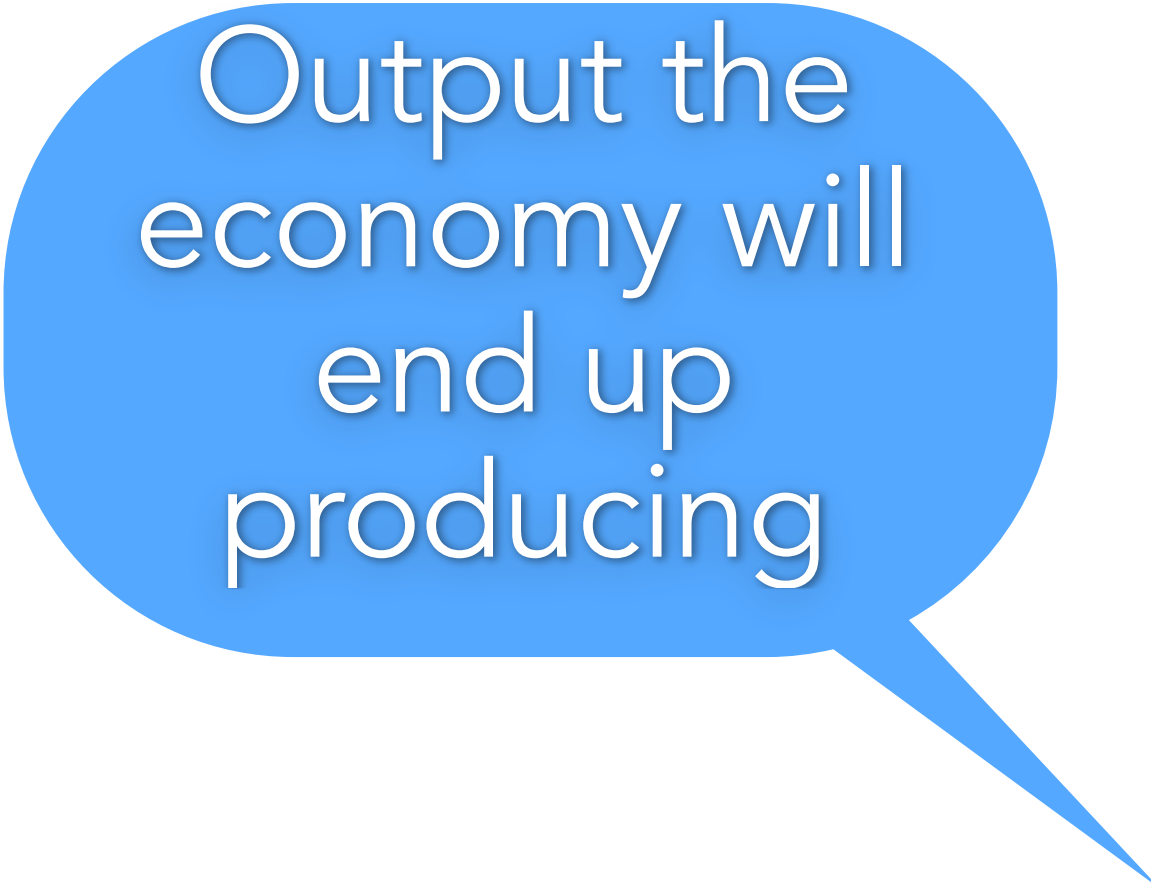
45°



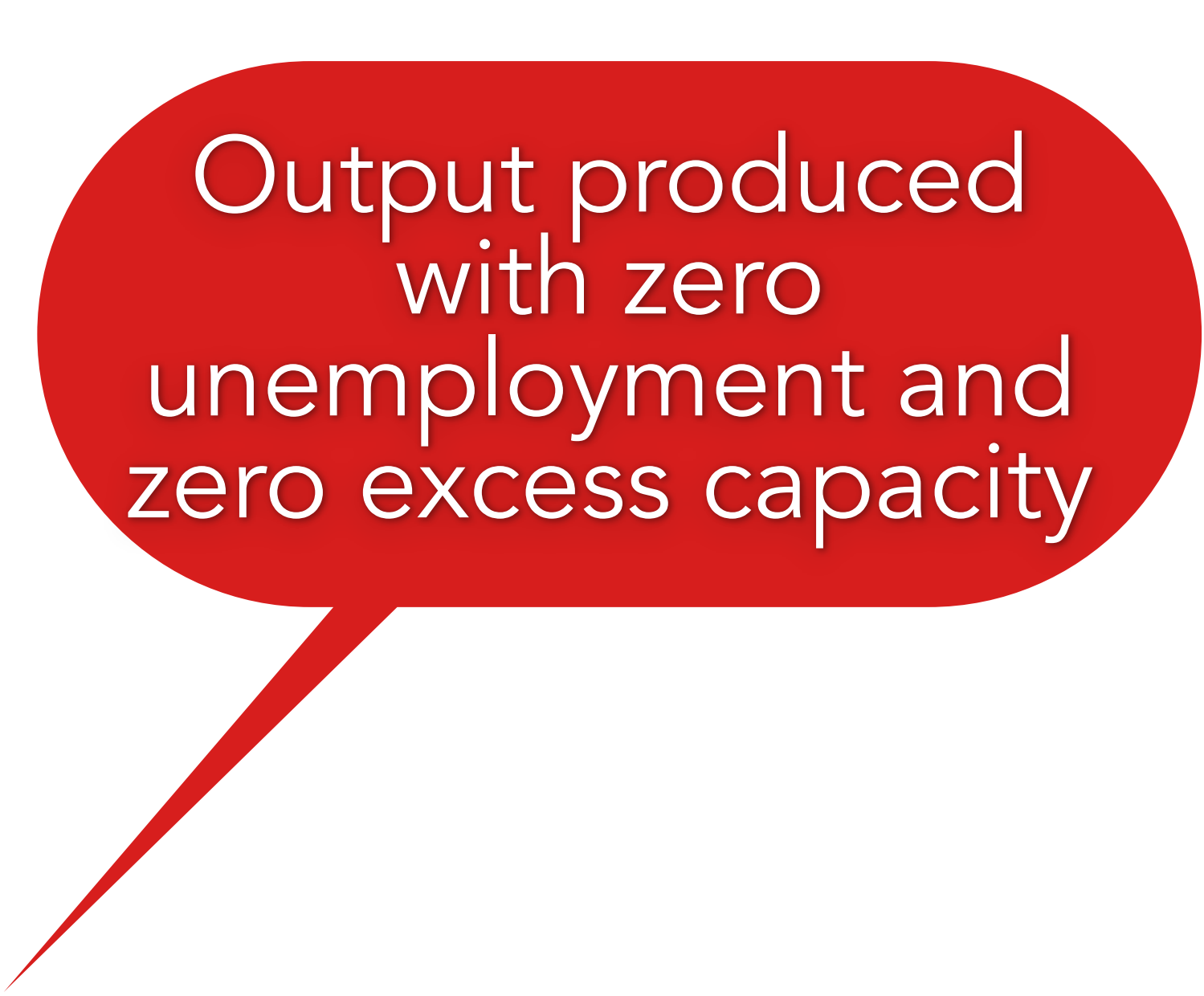


# Potential GDP





Output the  
economy will  
end up  
producing

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Output produced  
with zero  
unemployment and  
zero excess capacity



Recessionary  
Gap

1,000





Output must  
increase by  
1,000

