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GDP<sub>o</sub>

$P_1$



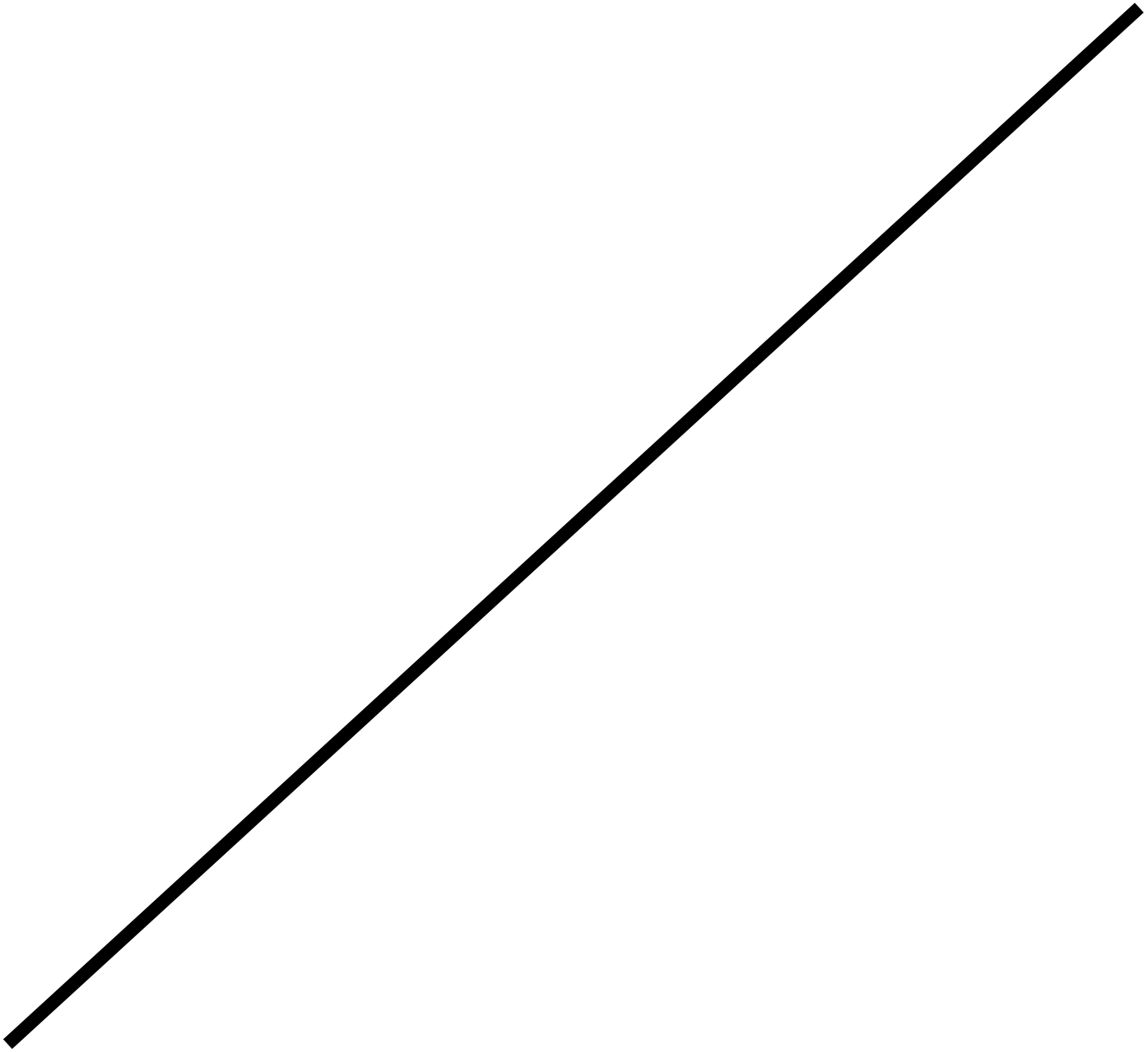
AS

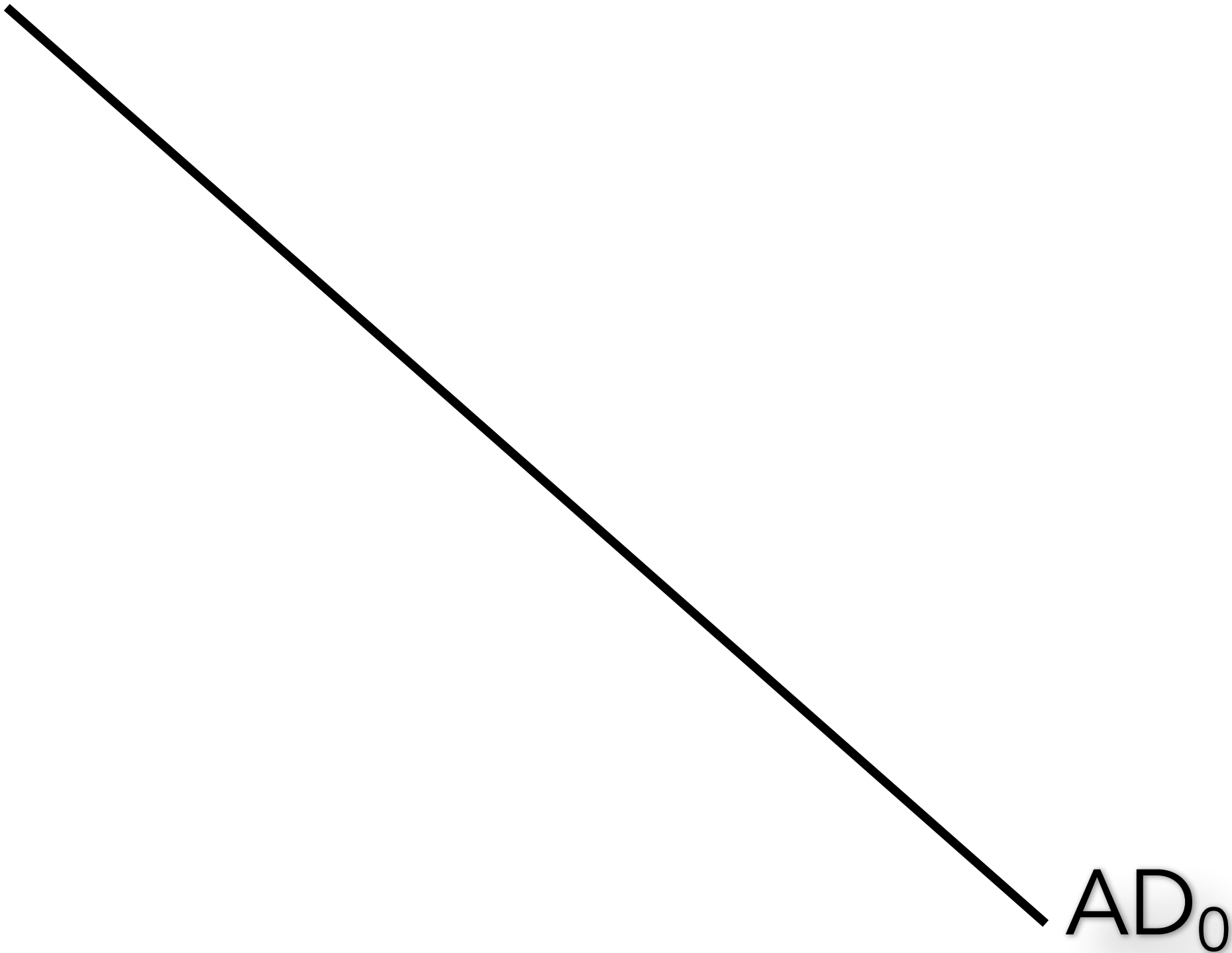
# Aggregate Supply when prices = $P_o$

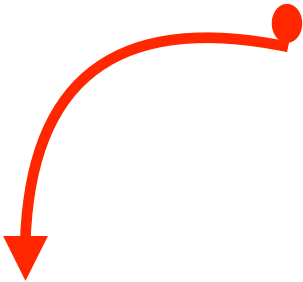


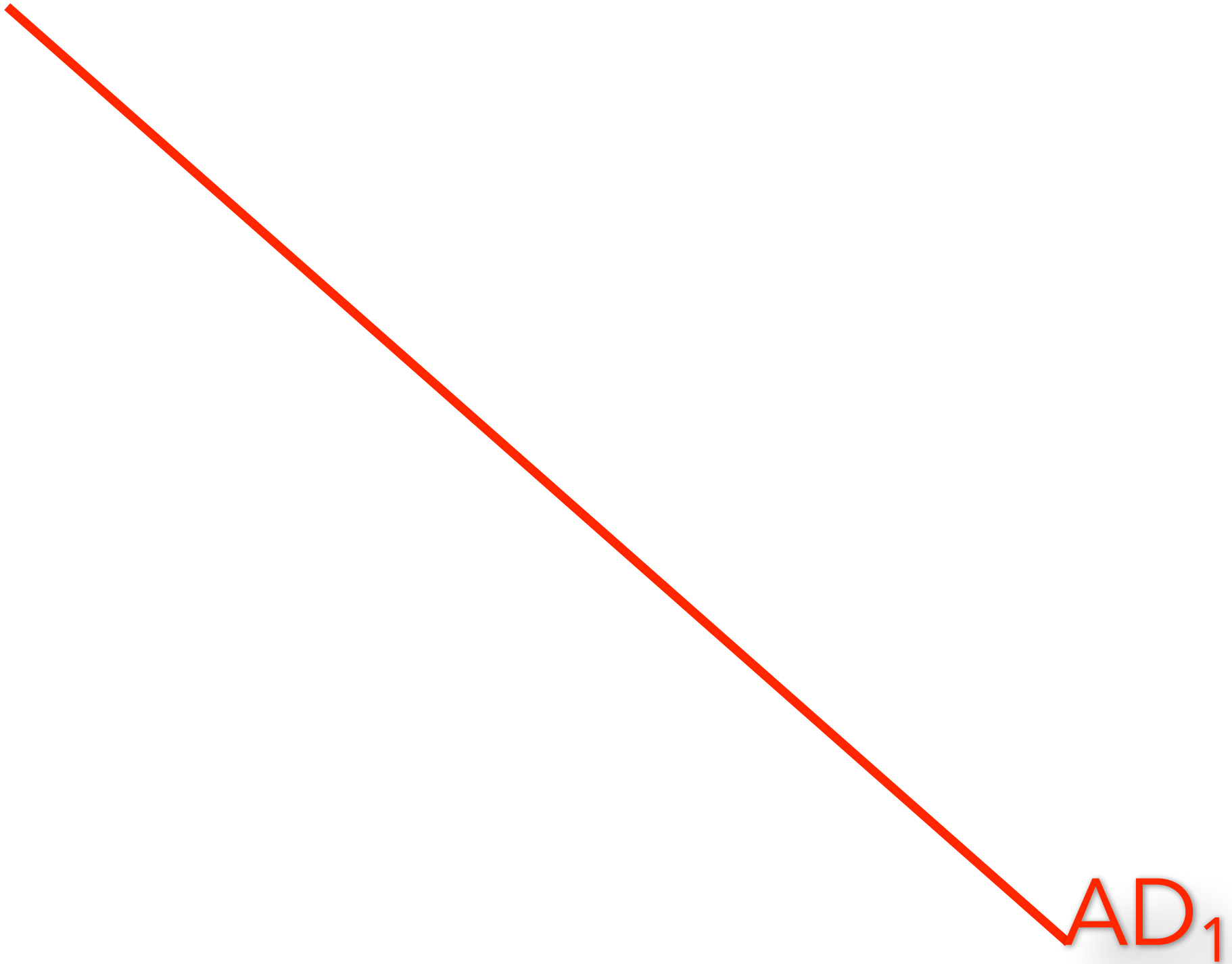
Firms decrease  
production and prices













# Aggregate Demand when prices = $P_0$

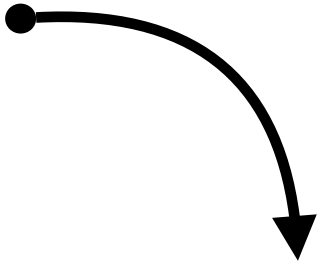
GDP<sub>1</sub>

Inventories  
Rise





Decrease in GDP is  
**smaller than the**  
**decrease in AD**



As prices fall  
AD increase

Price Level  
(CPI)



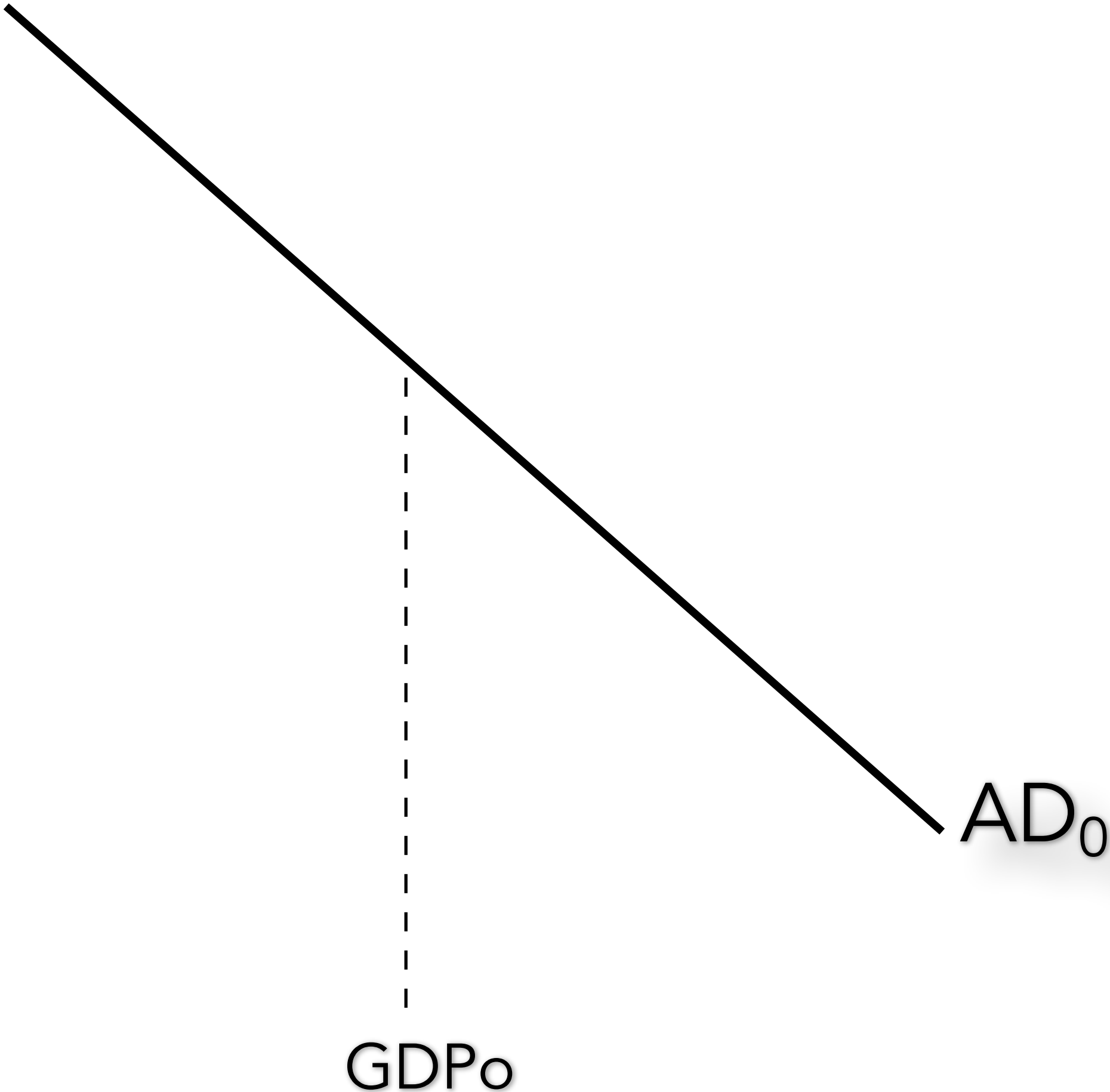
The Effect of an Decrease in Demand

decrease in

Demand







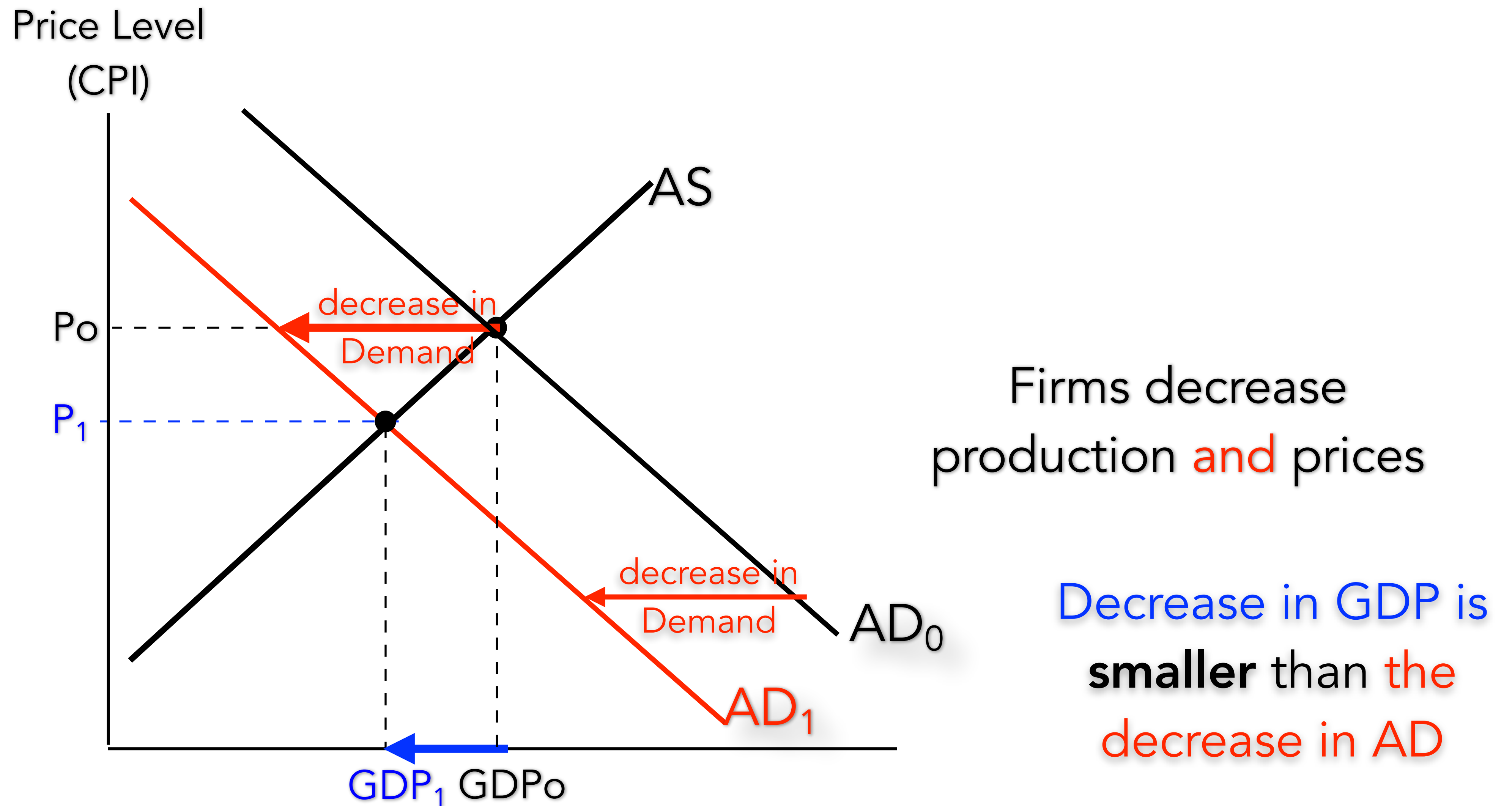


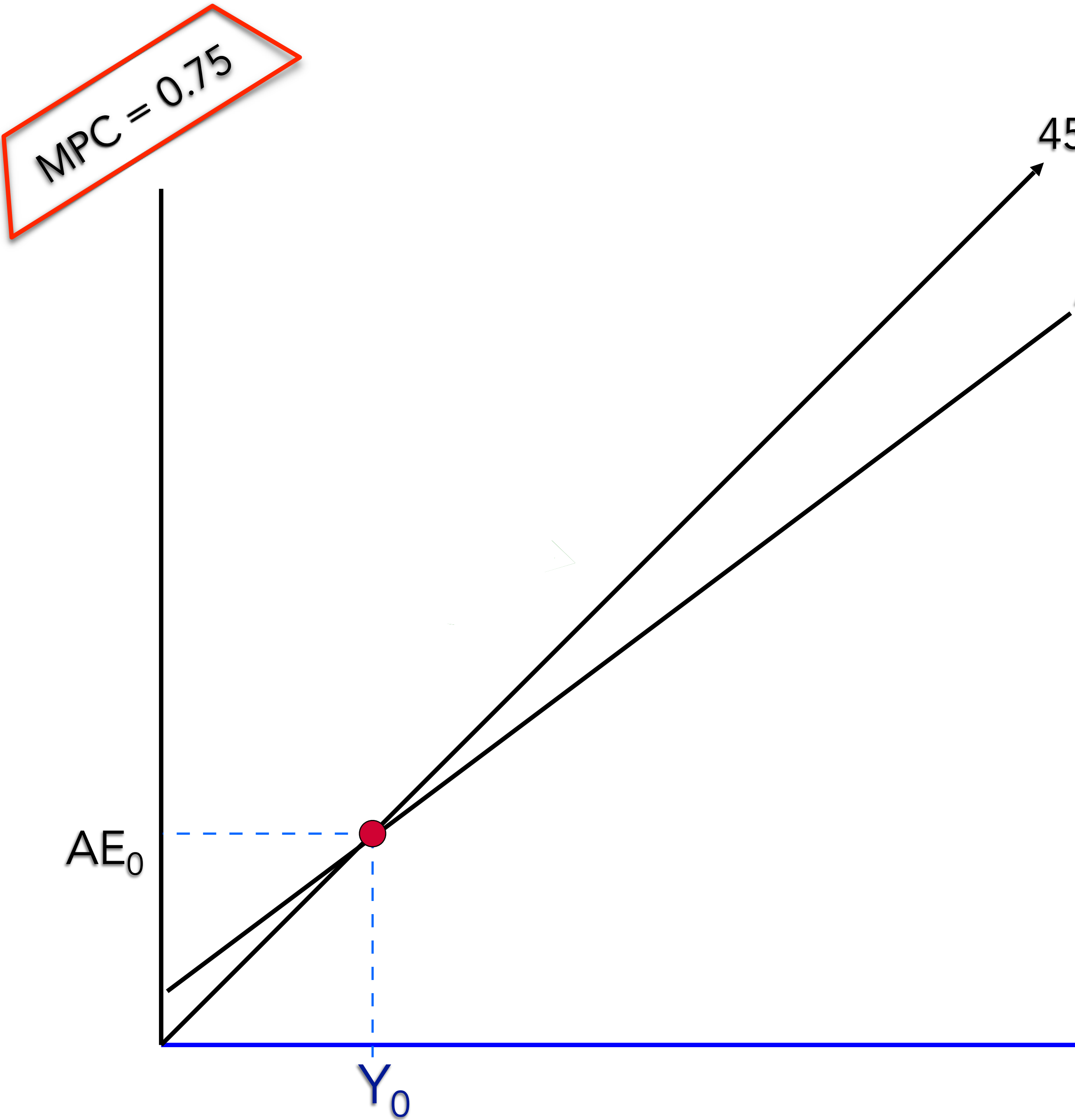
decrease in



Demand

# The Effect of an Decrease in Demand





Price Level  
(CPI)

