

A

E





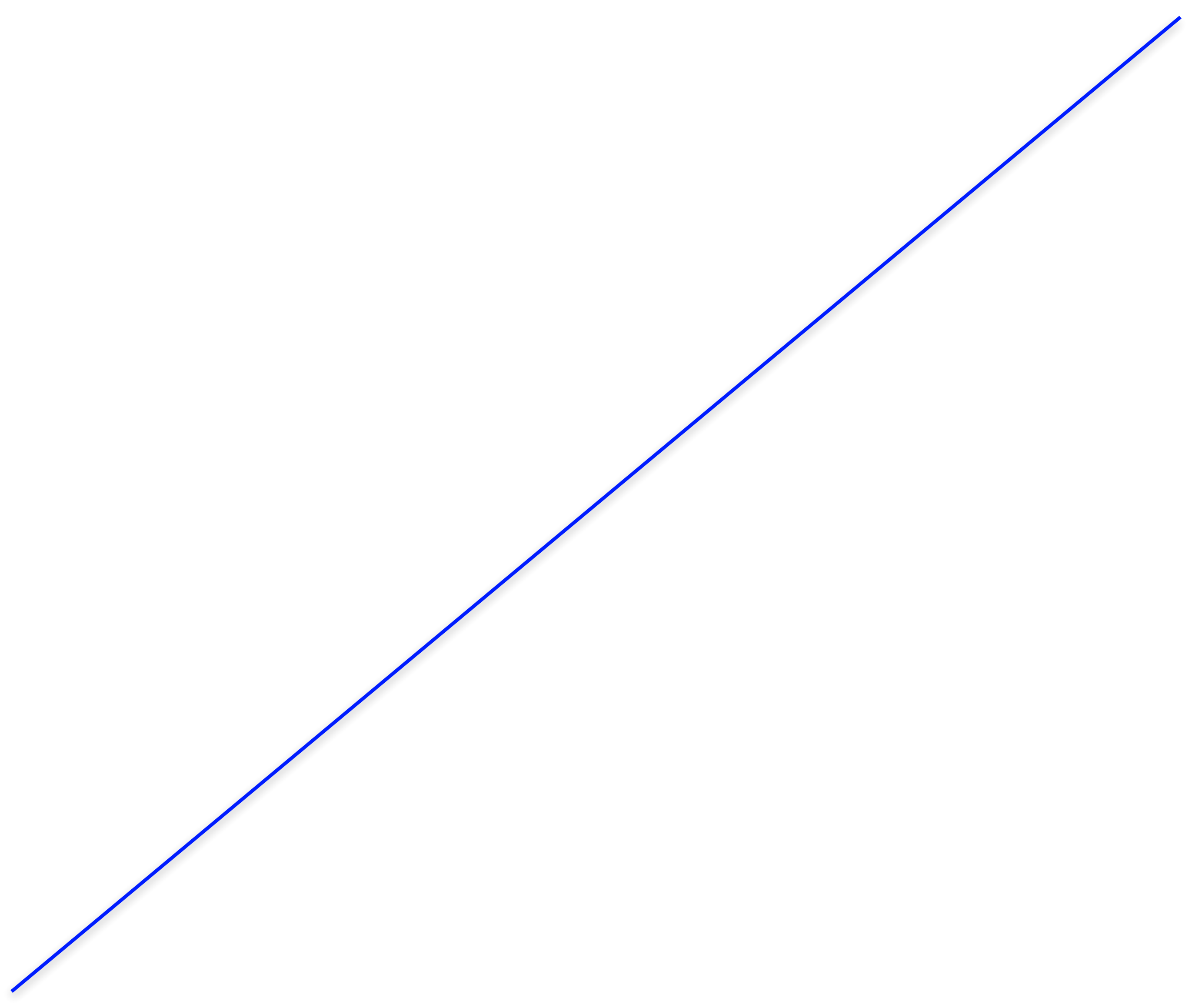
A

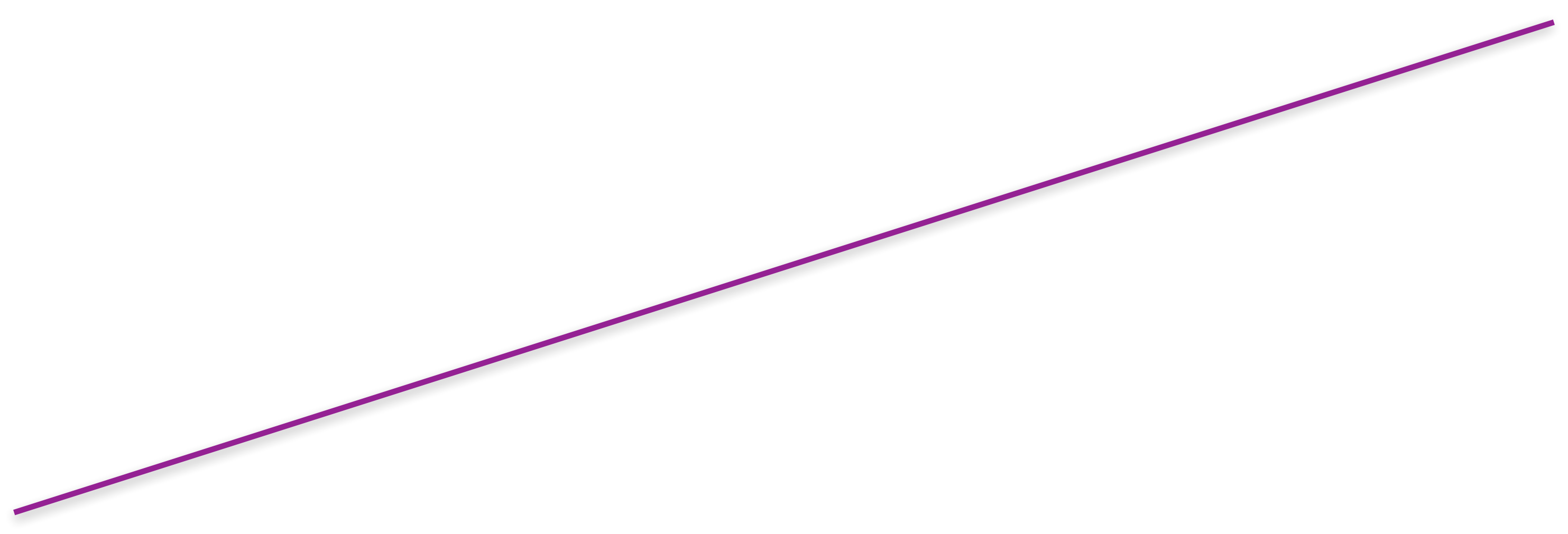
E

Total
Production

Inventories
Decrease

Inventories
Increase





Total Production (Y^*)

$$AE = Y^*$$



AE(above)

$Y(\text{Production})$

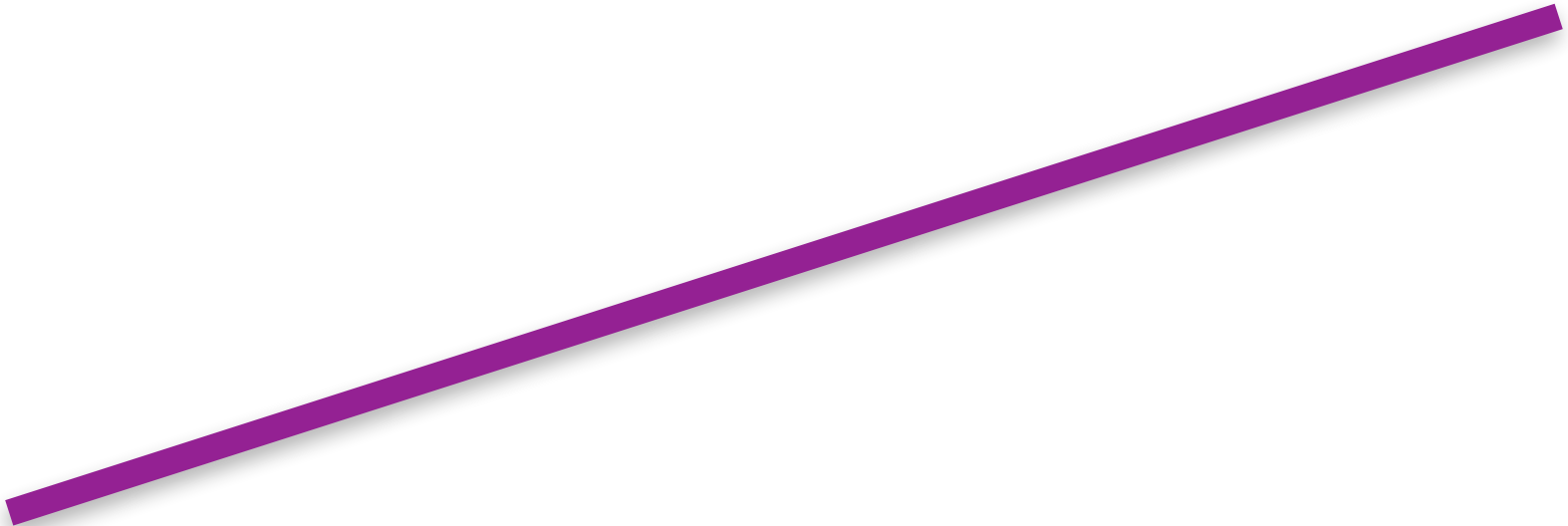
AE(below)

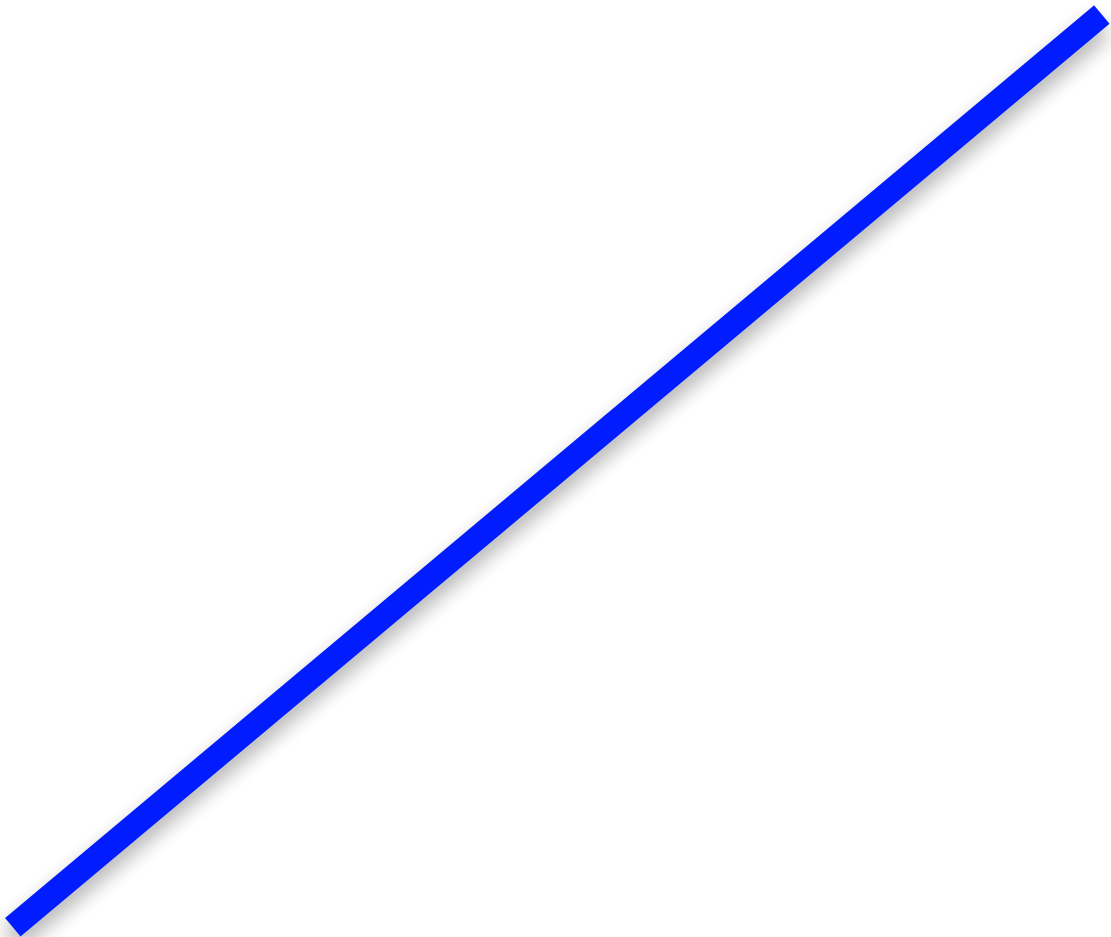
Production Y (higher)

Where the two lines cross: The
distance to the 45° line
(production) is the same as the
distance to the AE line (total
sold)

For any output level below Y^*

For any output level above Y^*







$$Y - AE =$$


increase in
inventories

$Y - AE =$
drop in
inventories





Firms could not
sell all production:
Inventories
increase



Firms sold goods
that were in
inventory:
inventories **drop**

$$AE > Y$$

Firms **sold**
more than
they **produced**

$AE = Y^*$ Firms
sold exactly what
they produced



No change in
inventories



$$AE < Y$$

Firms **sold less**
than they
produced

