

A

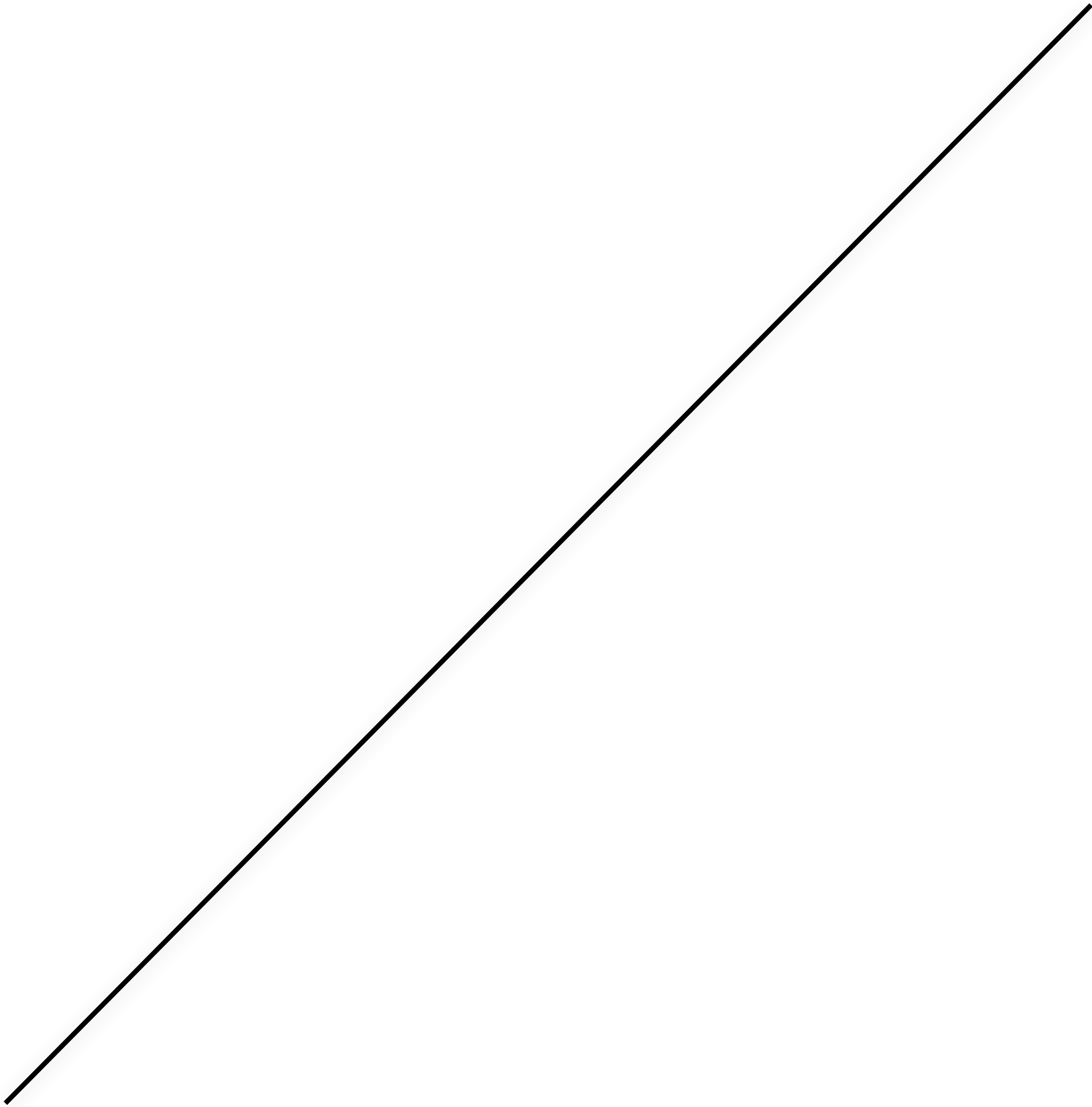
E



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



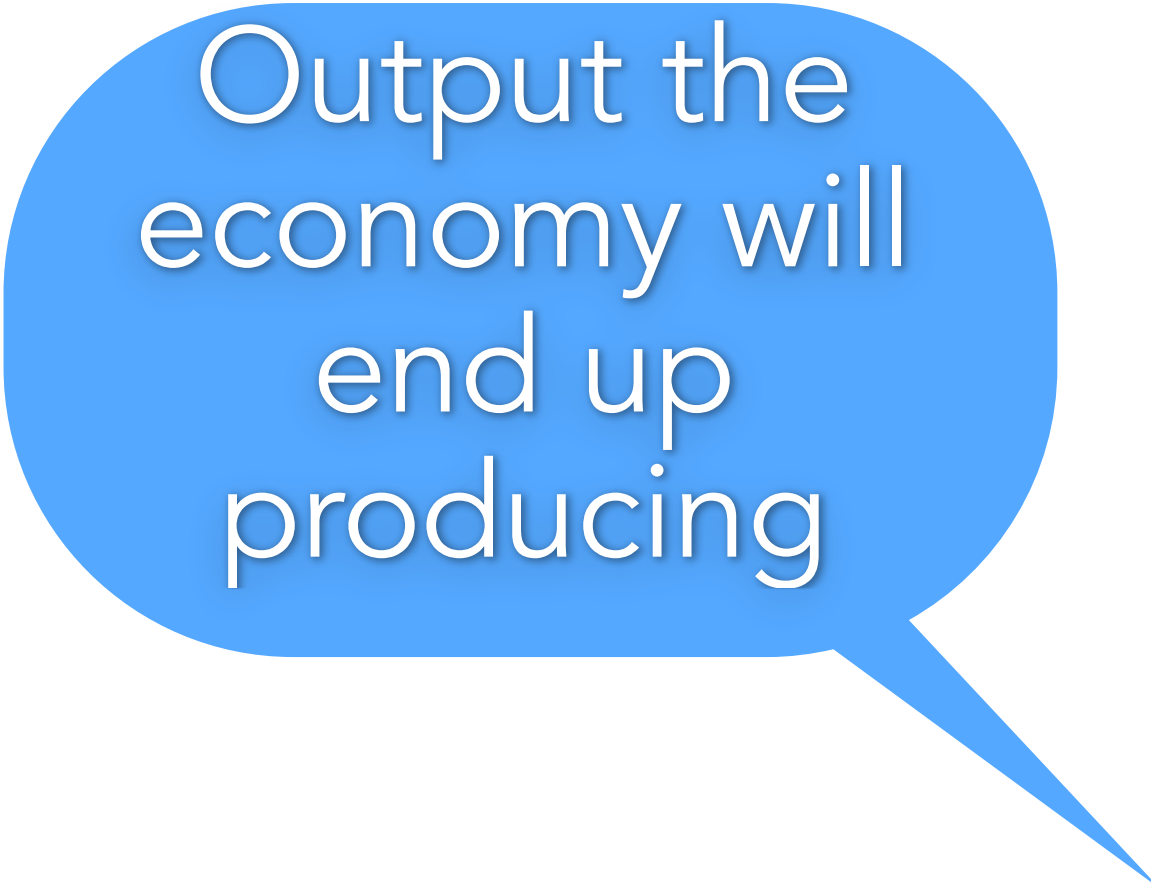


45°

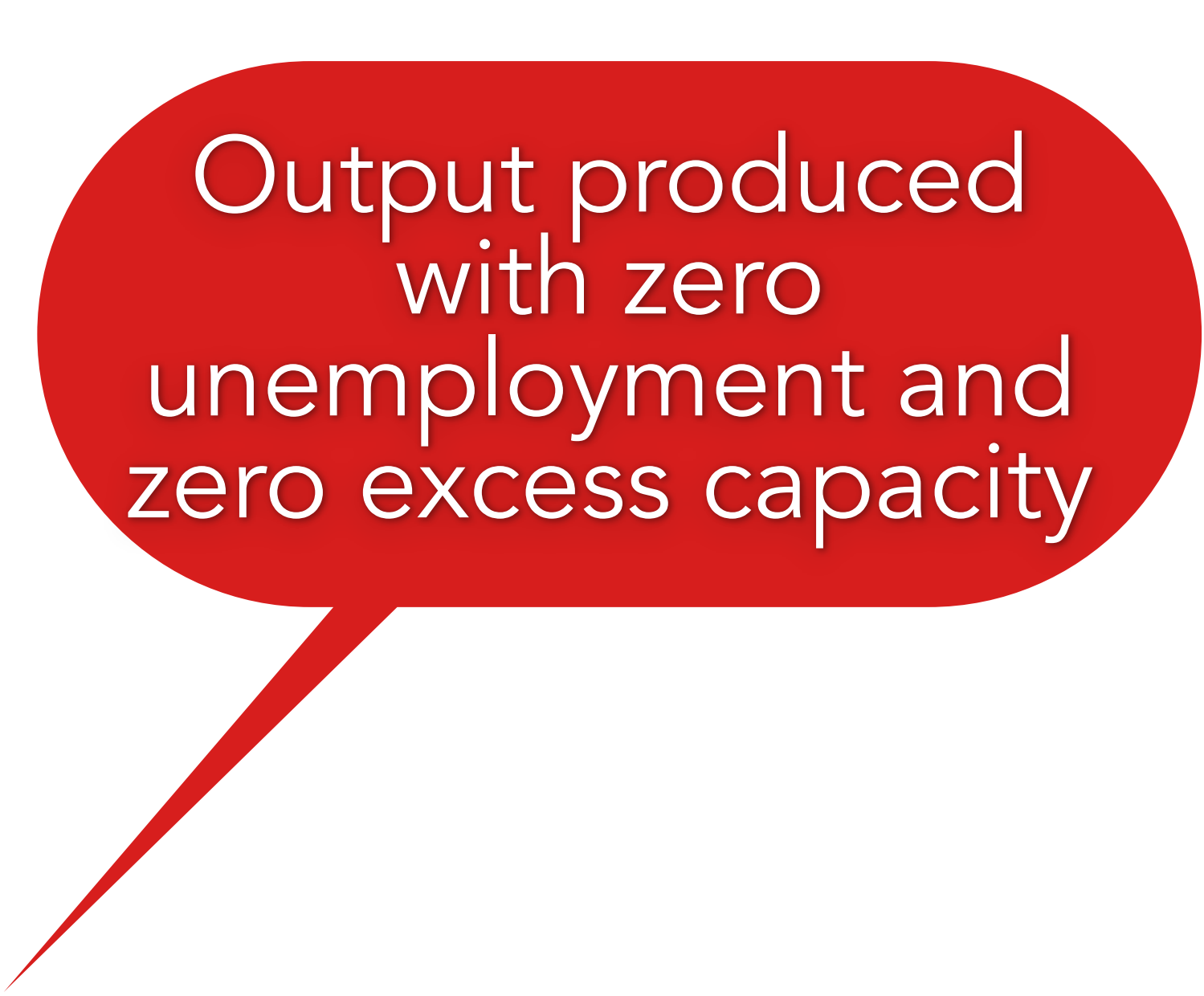


Potential GDP





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

