

Po.

.

—

—

—

—

—

—

—

—

—

—

—

.....

GDP_o

P_1

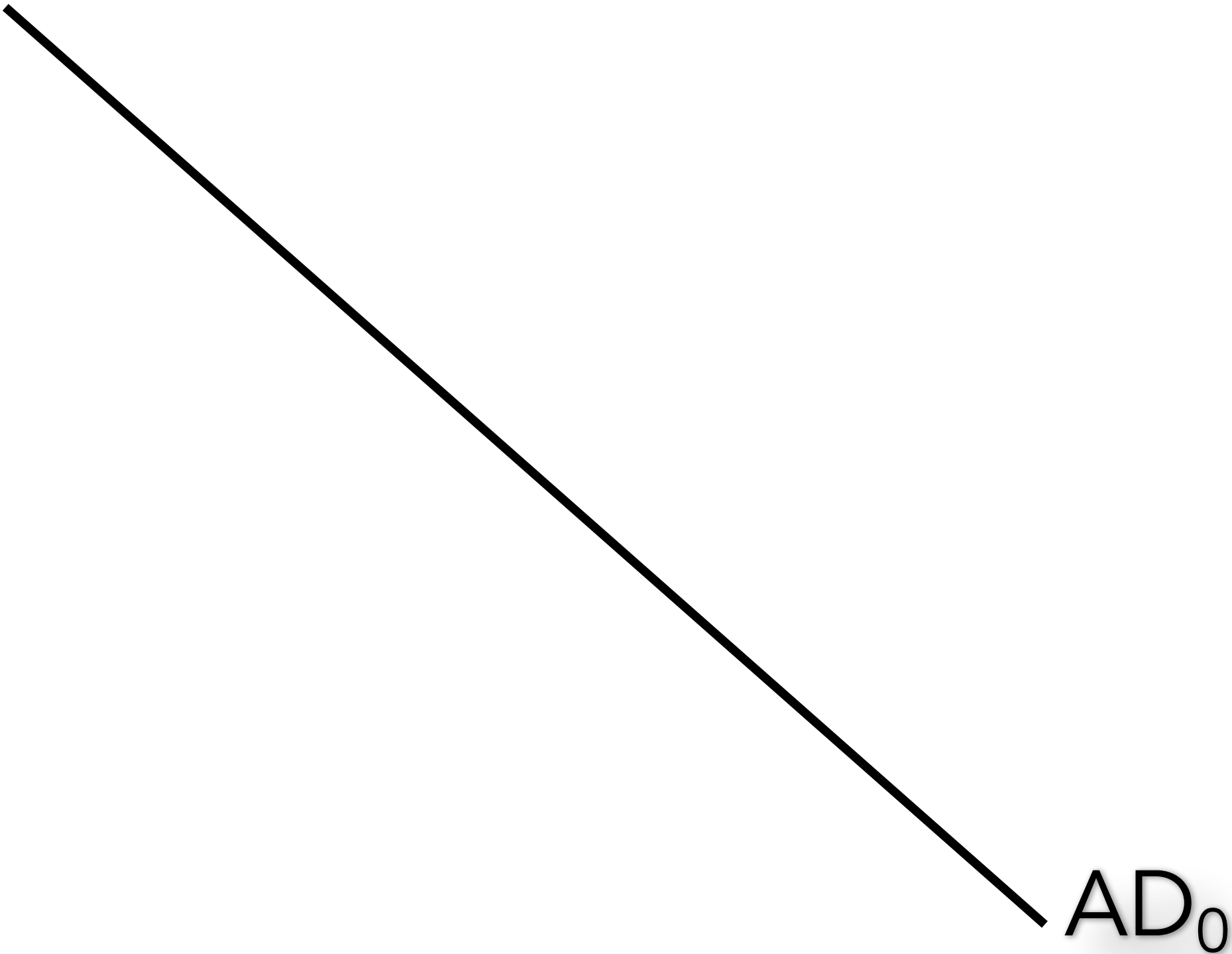




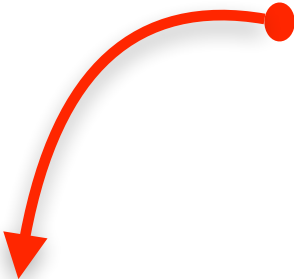
Firms decrease
production and prices

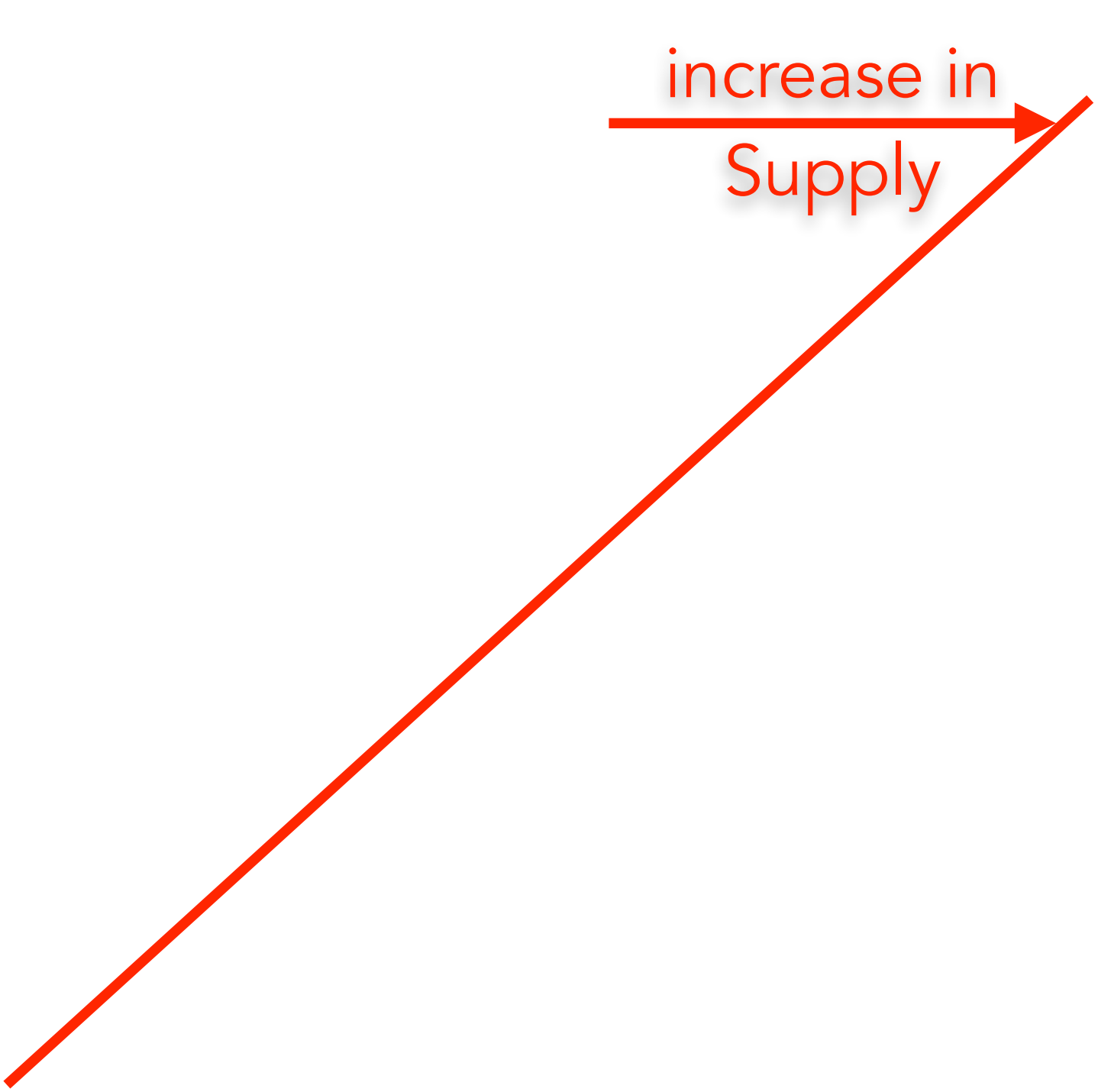
AS_0











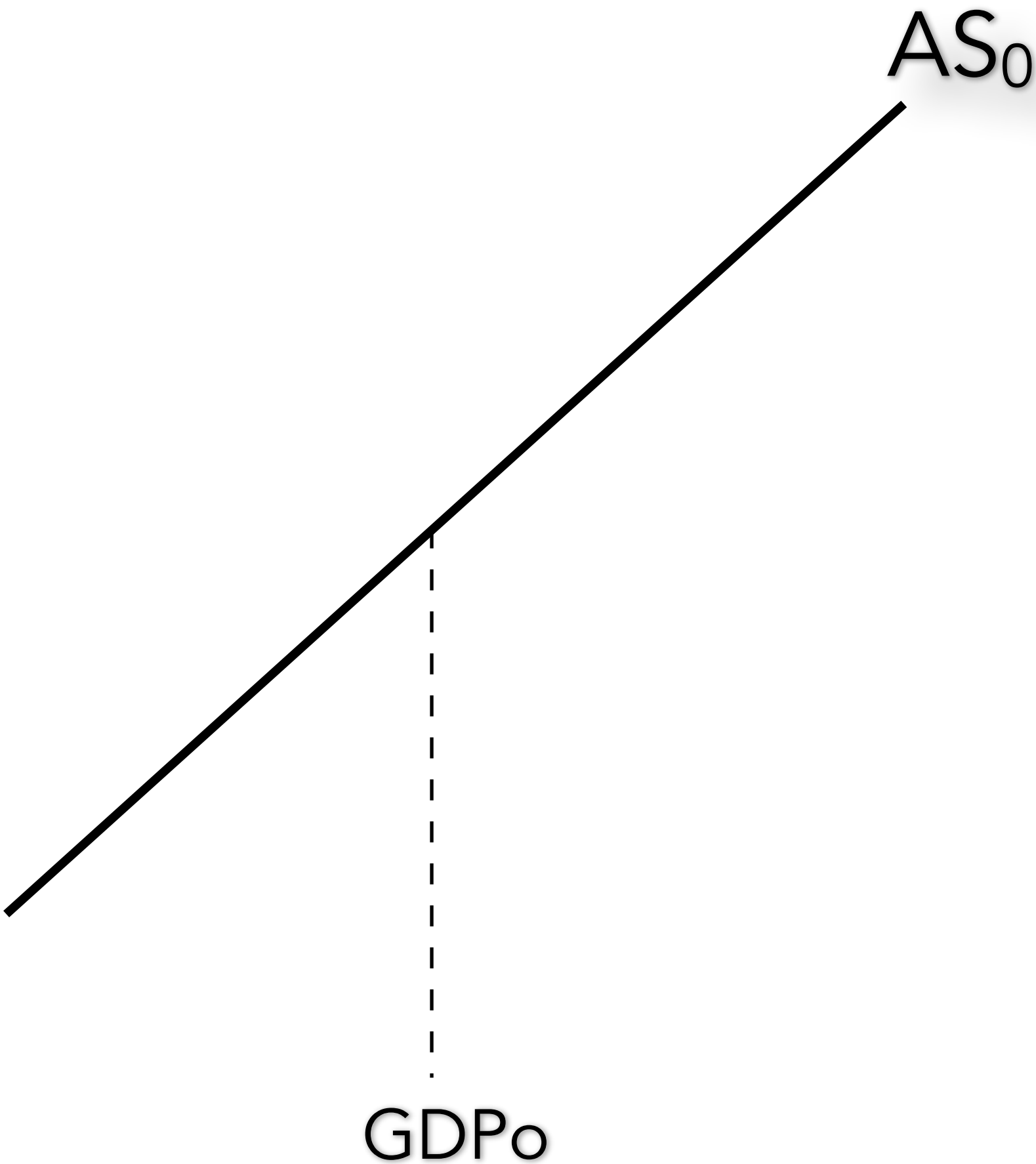
AS₁



Aggregate Demand
when prices = P_0

⋮

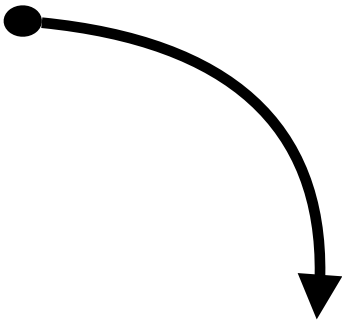
GDP_1



Inventories
Rise



Increase in GDP
smaller than the
increase in AS



As prices fall
AD increase

Price Level
(CPI)



The Effect of an Increase in Supply



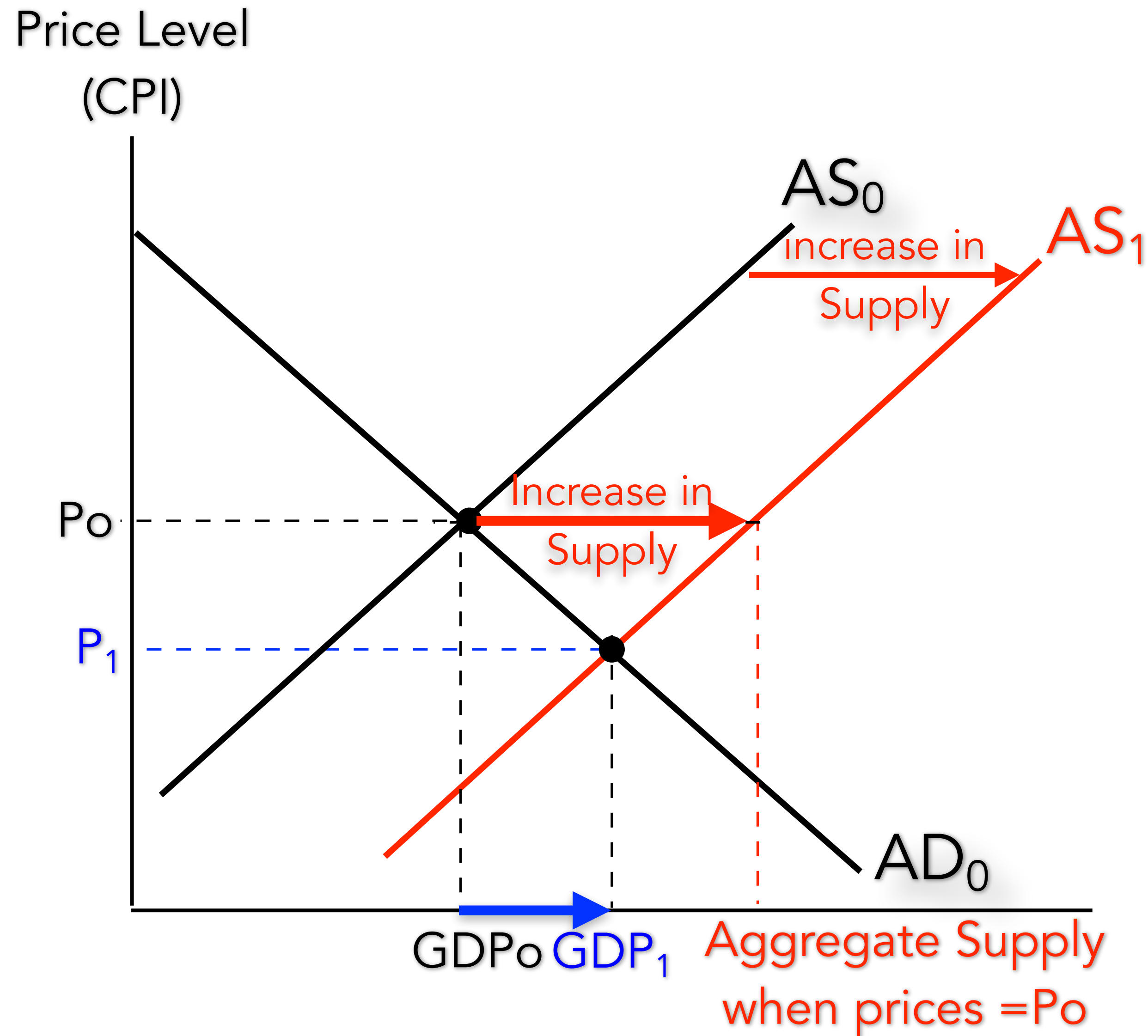
Aggregate Supply
when prices = P_o

Increase in

Supply



The Effect of an Increase in Supply



Firms decrease
production **and** prices

Increase in GDP
smaller than the
increase in AS