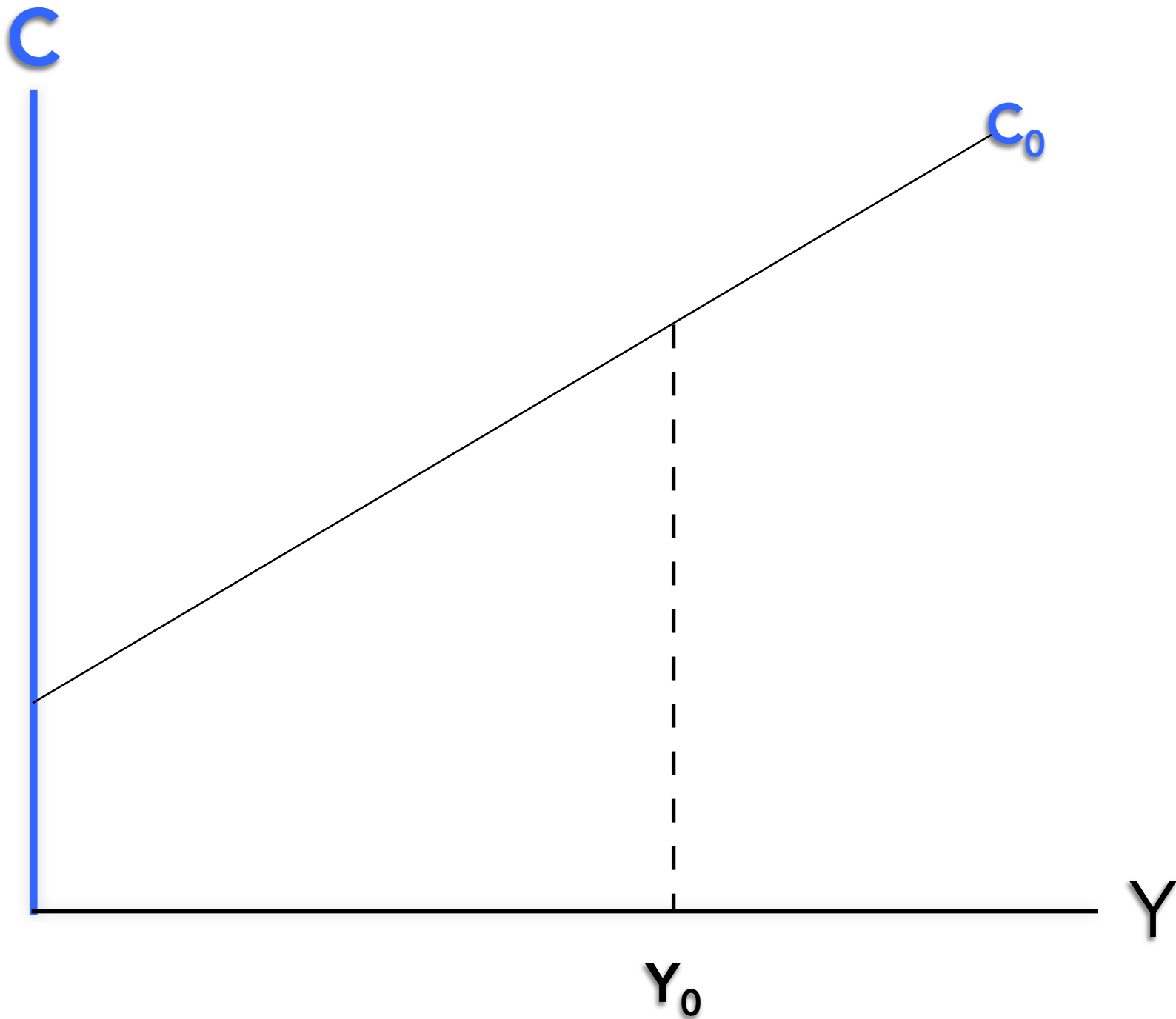
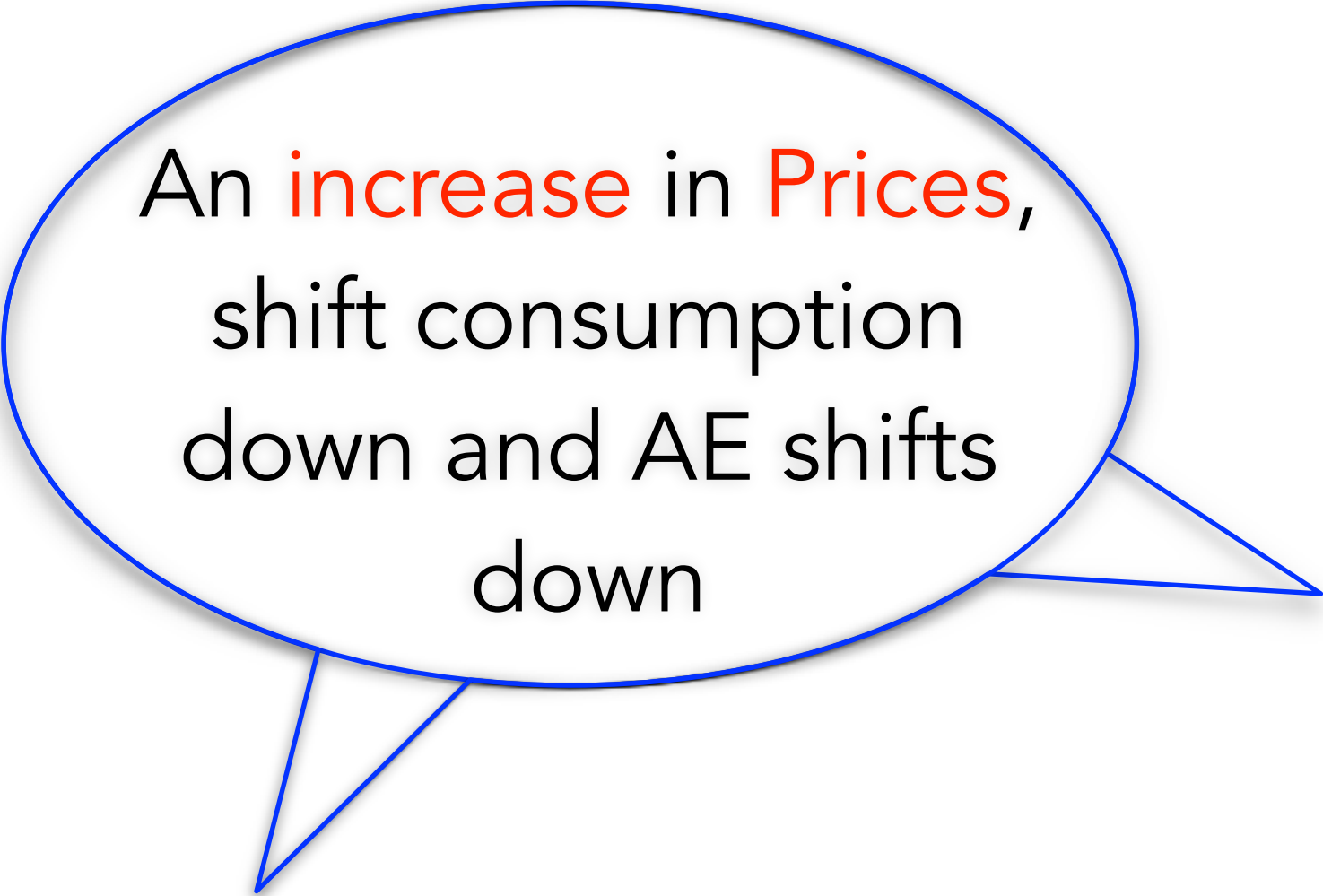


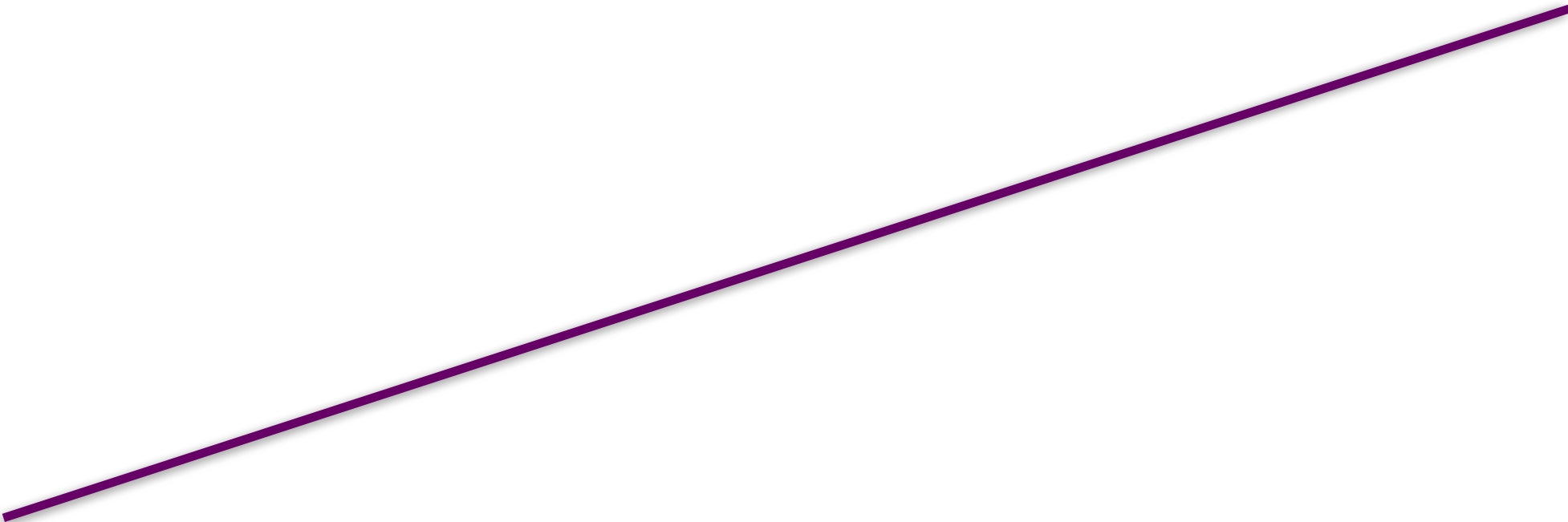
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An **increase** in **Prices**,
shift consumption
down and AE shifts
down


$$AE_1 = C_1 + I + G + NX$$

AE


$$AE_0 = C_0 + I + G + NX$$

Y_0



The graph illustrates the 45-degree model of aggregate expenditure. The vertical axis represents Aggregate Expenditure (AE) and the horizontal axis represents Output (Y). A solid black line at a 45-degree angle from the origin represents the identity $Y = AE$. A purple line represents the initial aggregate expenditure function $AE_0 = C_0 + I + G + NX$, which starts at a positive intercept on the vertical axis. The intersection of these two lines determines the initial equilibrium output Y_0 , which is marked on the horizontal axis by a vertical dashed line.





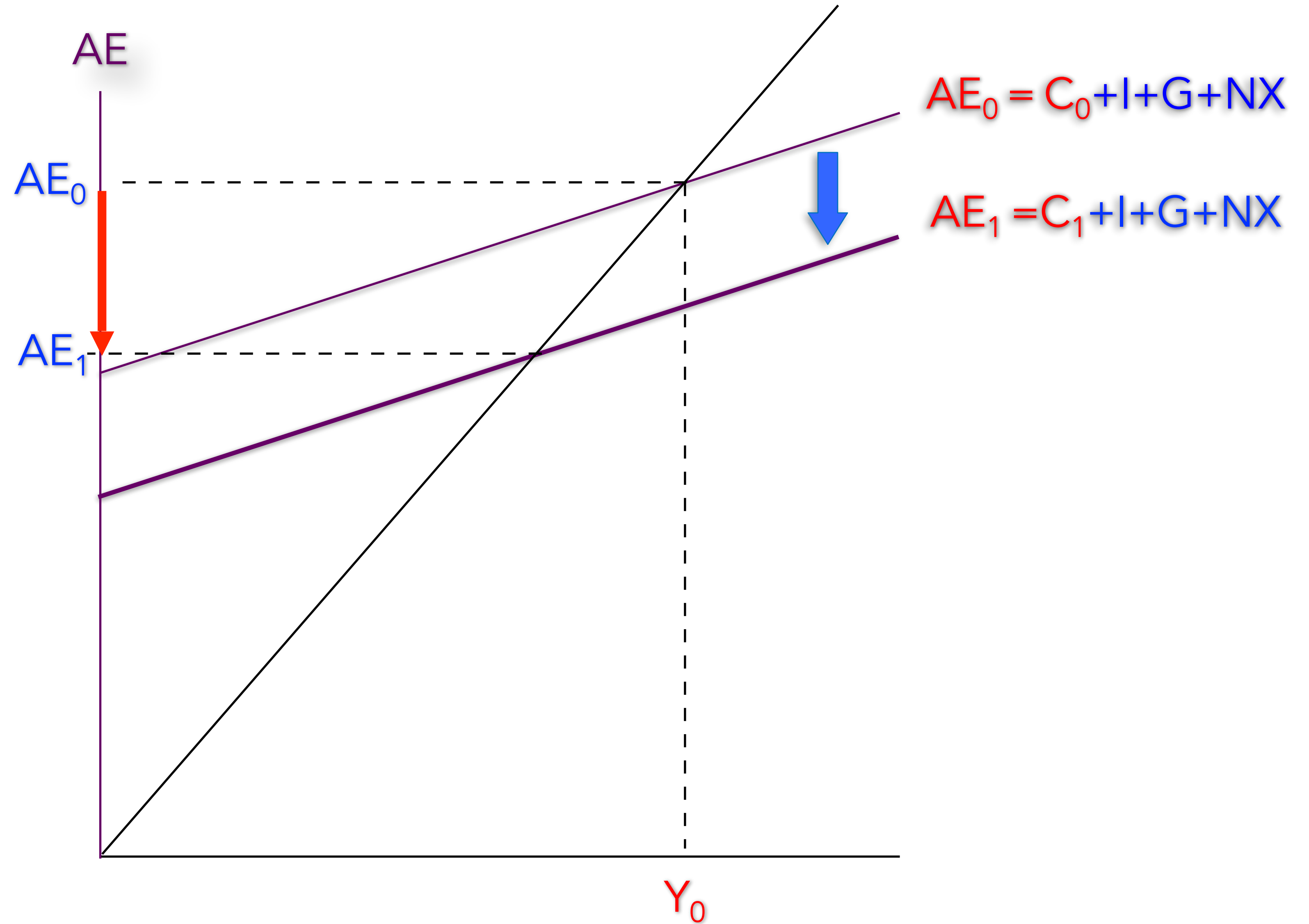
Aggregate
Demand for goods
and services
decrease

AE_1

AE_0

An **increase** in **Prices**,
shift consumption
down and AE shifts
down

Aggregate
Demand for goods
and services
decrease



Aggregate Demand

