



A

E



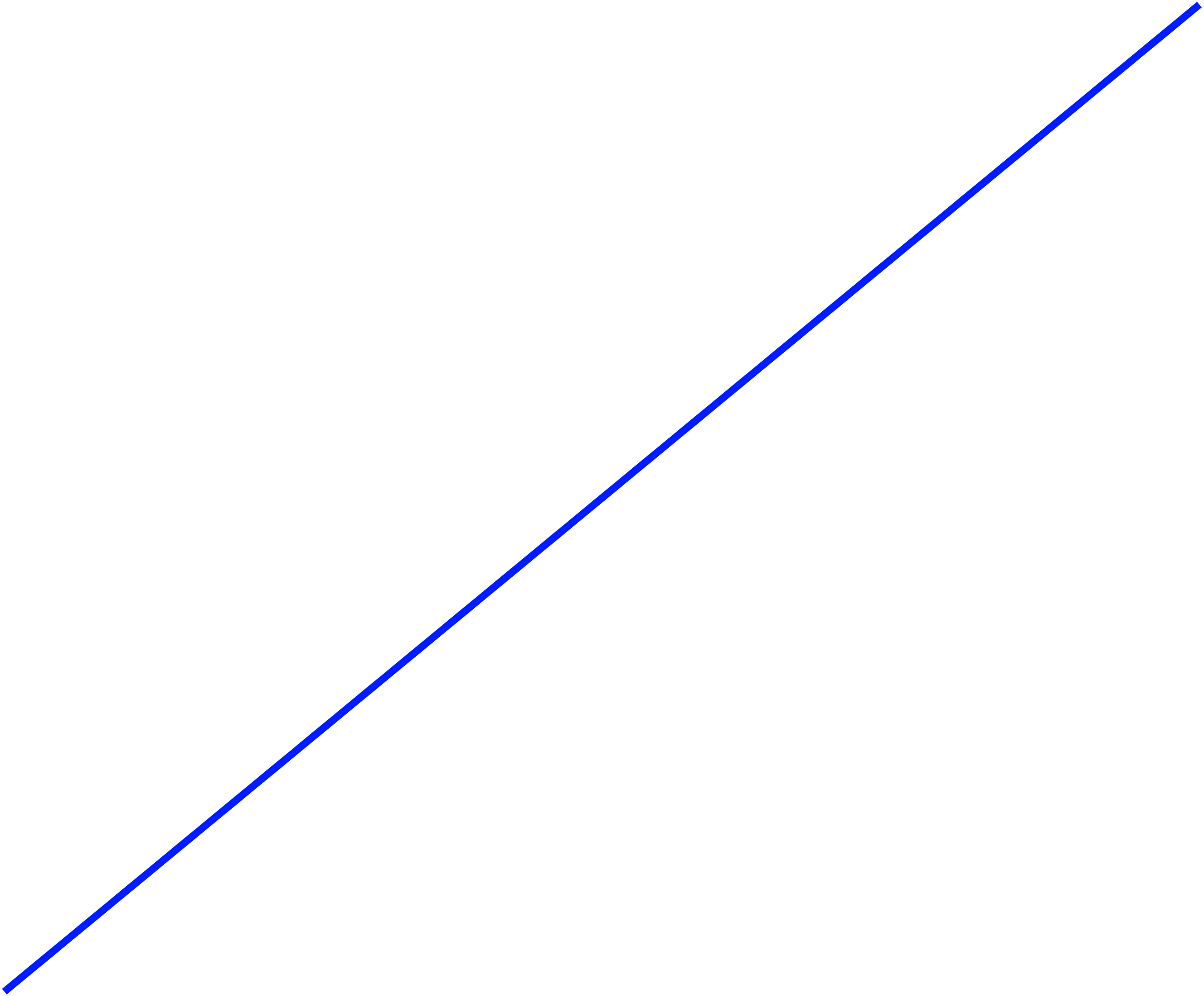


A

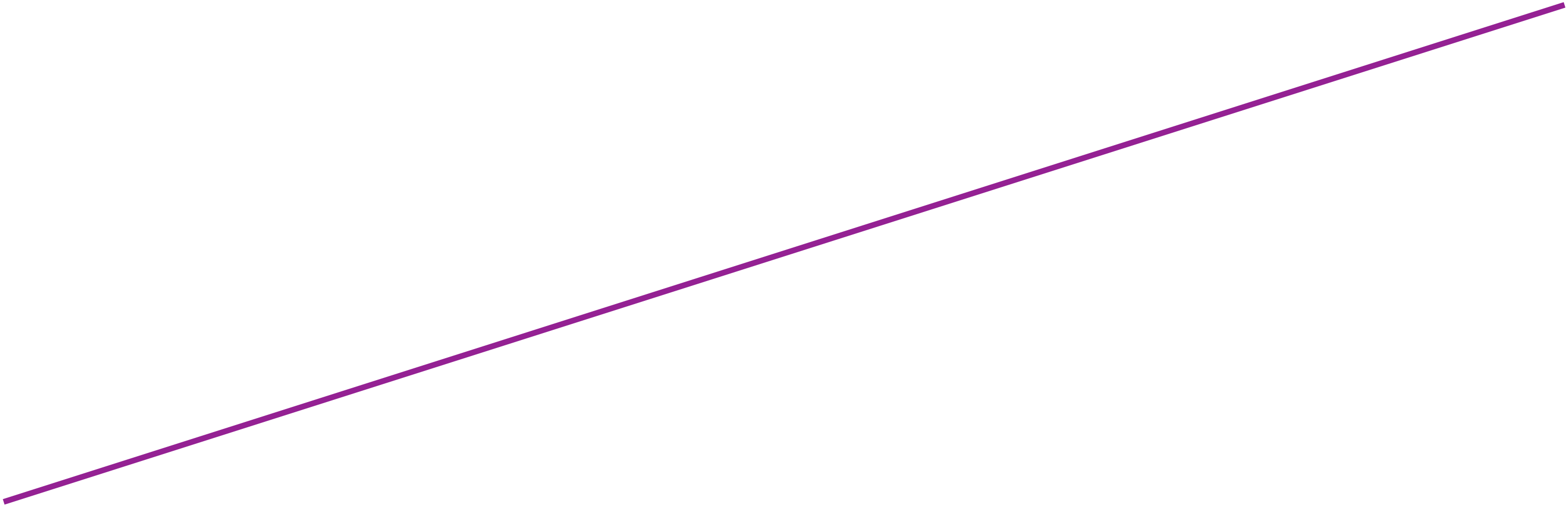
E

Total  
Production











AE

=

Y\*





Equilibrium output may  
be "too high" with  
rampant inflation

Potential  
GDP



Zero Unemployment  
No excess capacity



Economy is trying  
to produce **beyond**  
capacity



Working at full capacity,  
equipment breaks down  
more often: costs rise

Firms hiring workers who  
already have a job (Labor  
shortages): Labor costs rise



Rising costs = rising prices

**inflation**

