

A

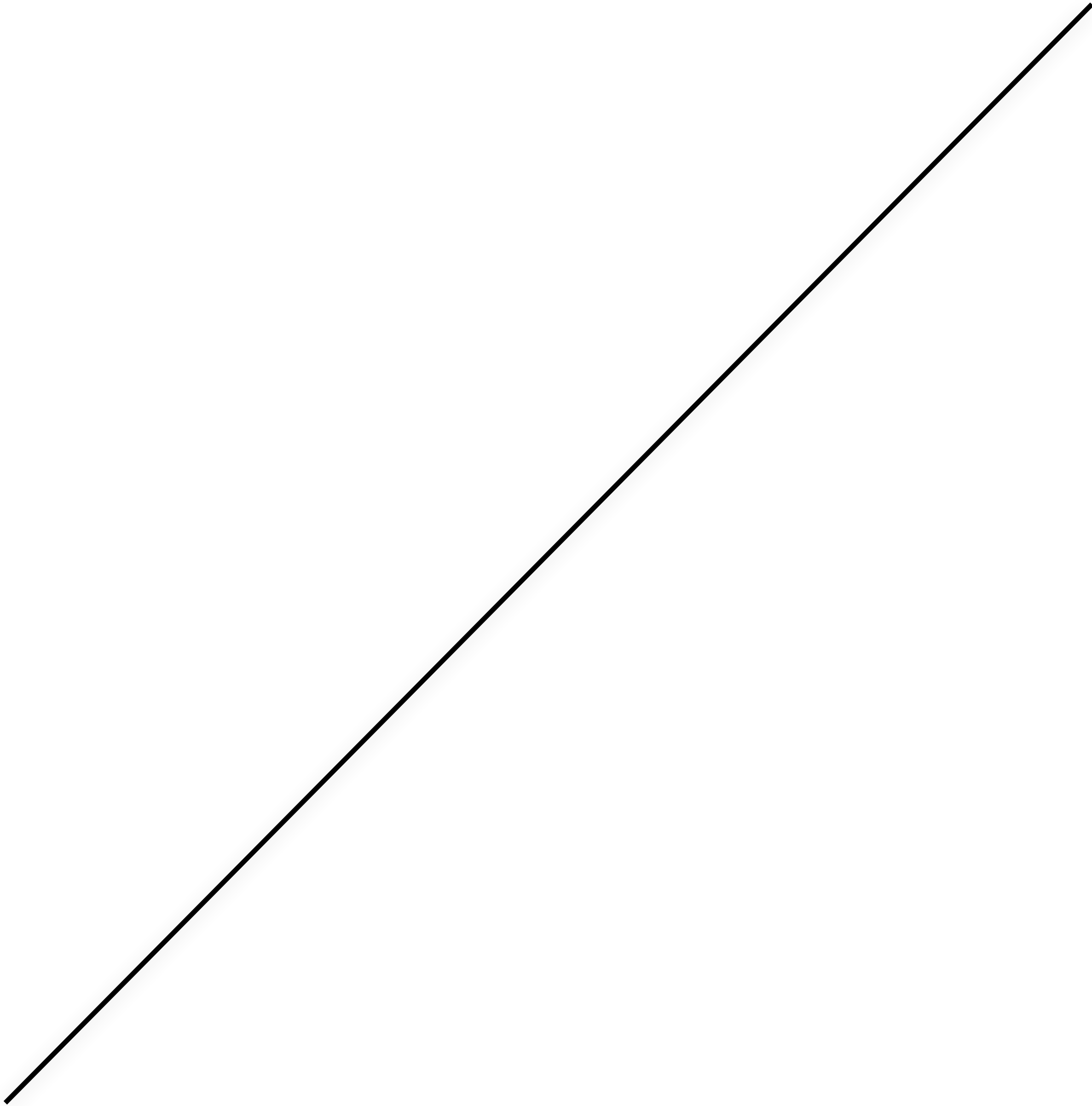
E



Equilibrium GDP

9,000





Equilibrium




AE

Potential GDP

7,000

$$7,000 - 9,000 = -2,000$$



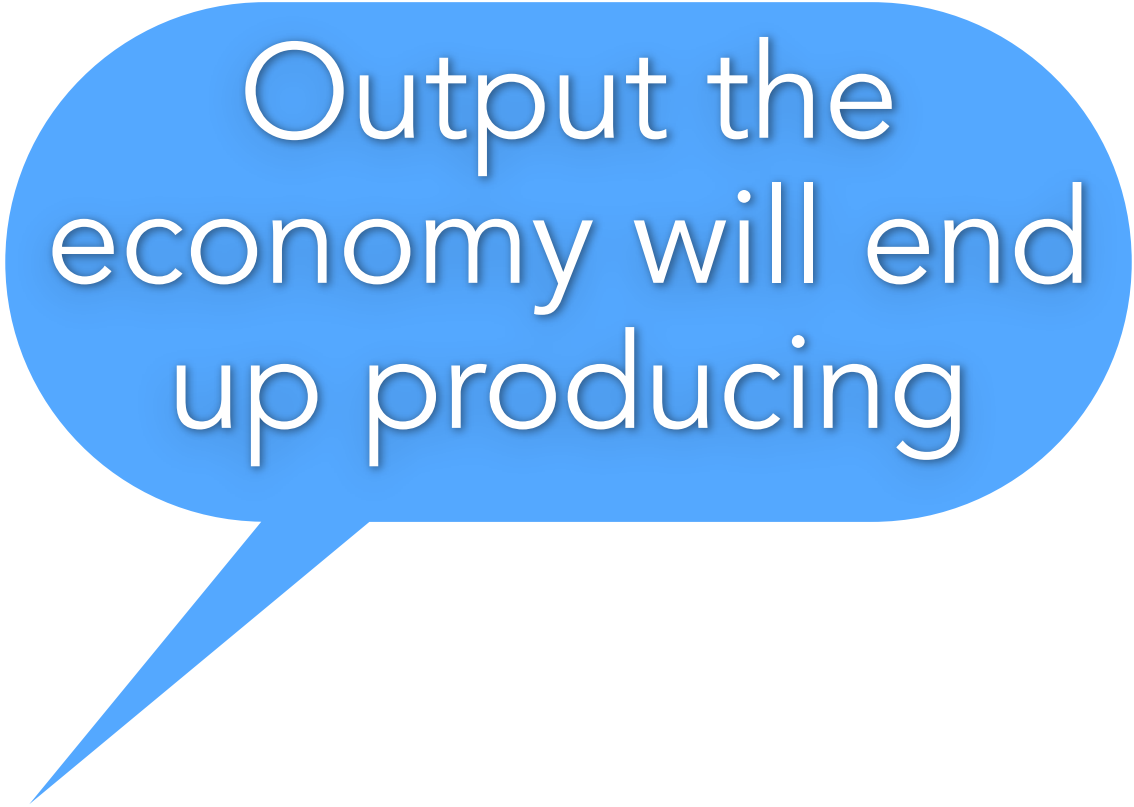
Economy is producing
more than the
economy can produce:
Labor shortages and
above capacity

45°

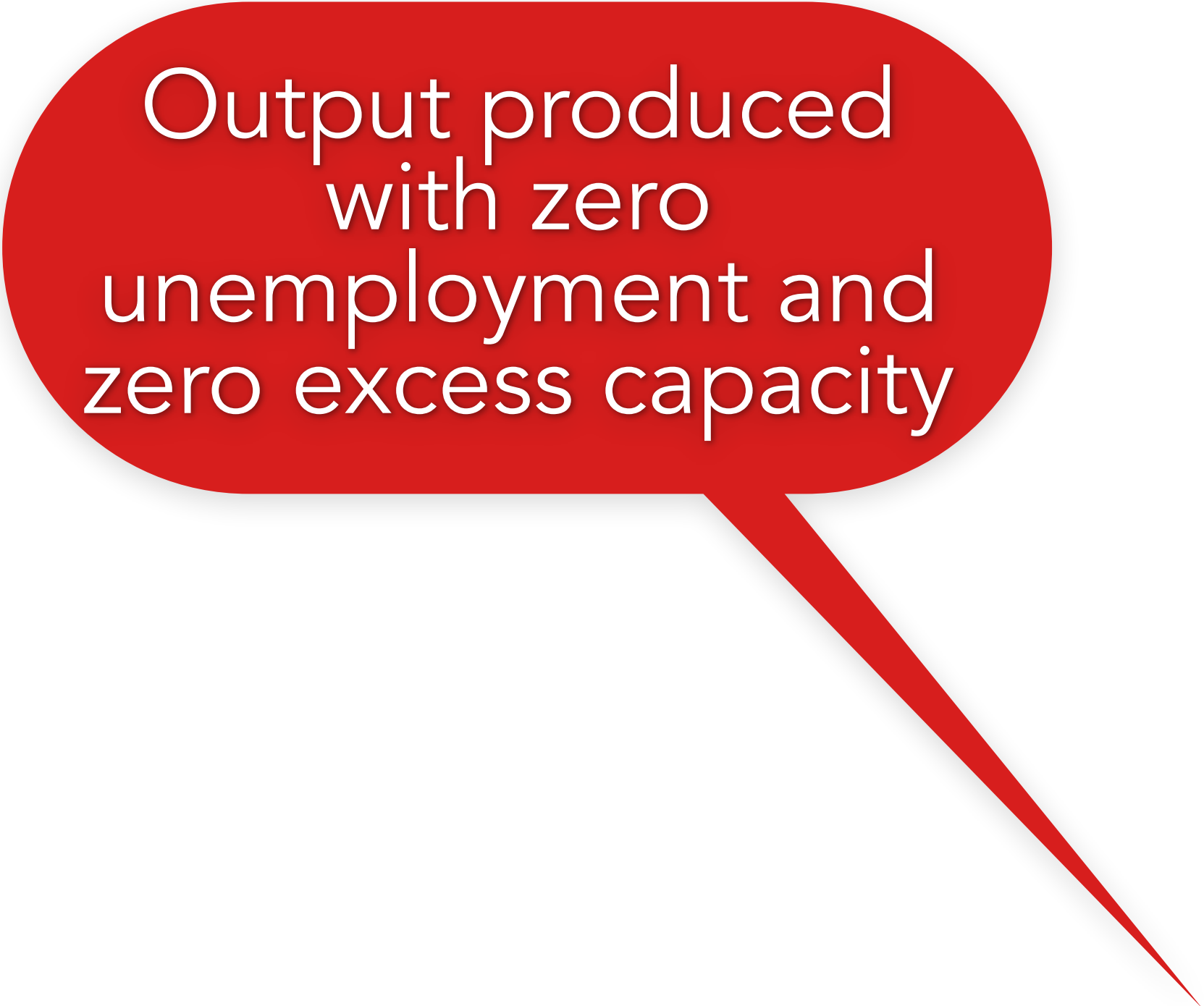


Potential GDP





Output the
economy will end
up producing

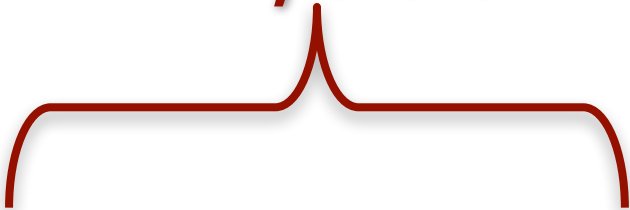
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Output produced
with zero
unemployment and
zero excess capacity



Rising Costs and
prices:
Inflationary Gap

- 2,000





Output must
decrease by
2,000





