









AS

AD

1

2

0

130

140

3000



32000

34000

If the price level is 140

1. The quantity of goods supplied is equal to

2. The quantity of goods demanded is equal to _____

3. Inventories will

4. Firms will react to this change in inventories by _____ production and _____ prices.



34000 Produce

Purchase 30000





140

3400

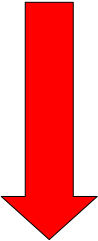
3000

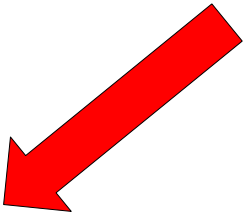
Increase by 400

Decreasing

Decreasing





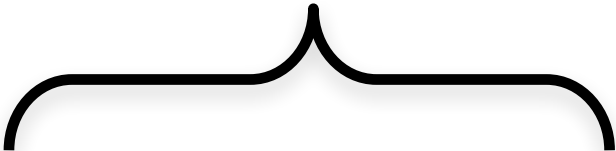




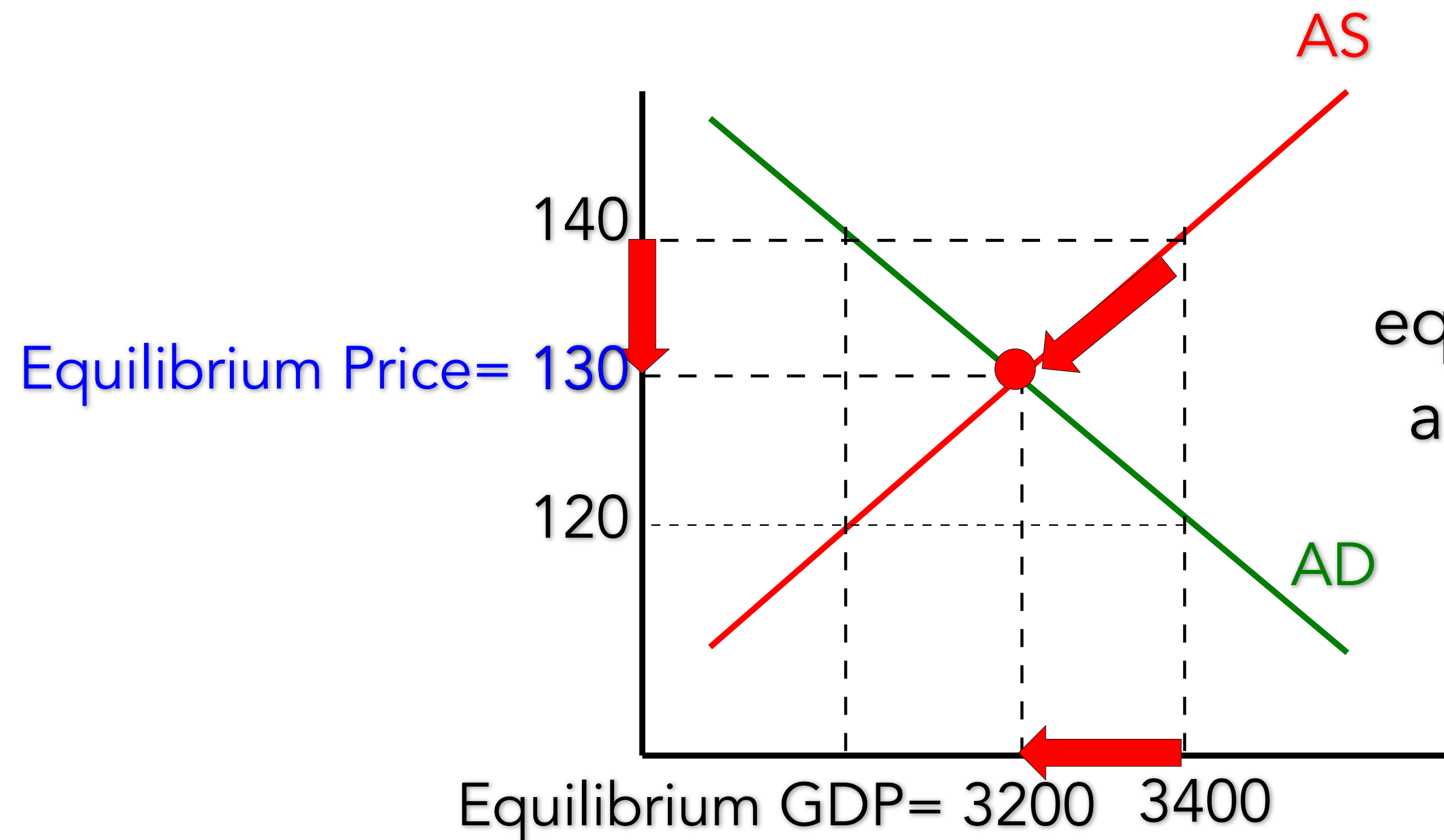
Equilibrium Price = 130

Equilibrium GDP = 3200

The Economy will remain in equilibrium with Price Level = 130 and GDP = 3,200 until an event shifts either AS or AD



$$\Delta \text{Inventories} = 34000 - 30000 = +4000$$



The Economy will remain in equilibrium with Price Level = 130 and GDP = 3,200 until an event shifts either AS or AD

If the price level is 140

1. The quantity of goods supplied is equal to 3400
2. The quantity of goods demanded is equal to 3000
3. Inventories will Increase by 400
4. Firms will react to this change in inventories by Decreasing production and Decreasing prices.

The Effect of an Increase in Demand

