

Po



GDP_o

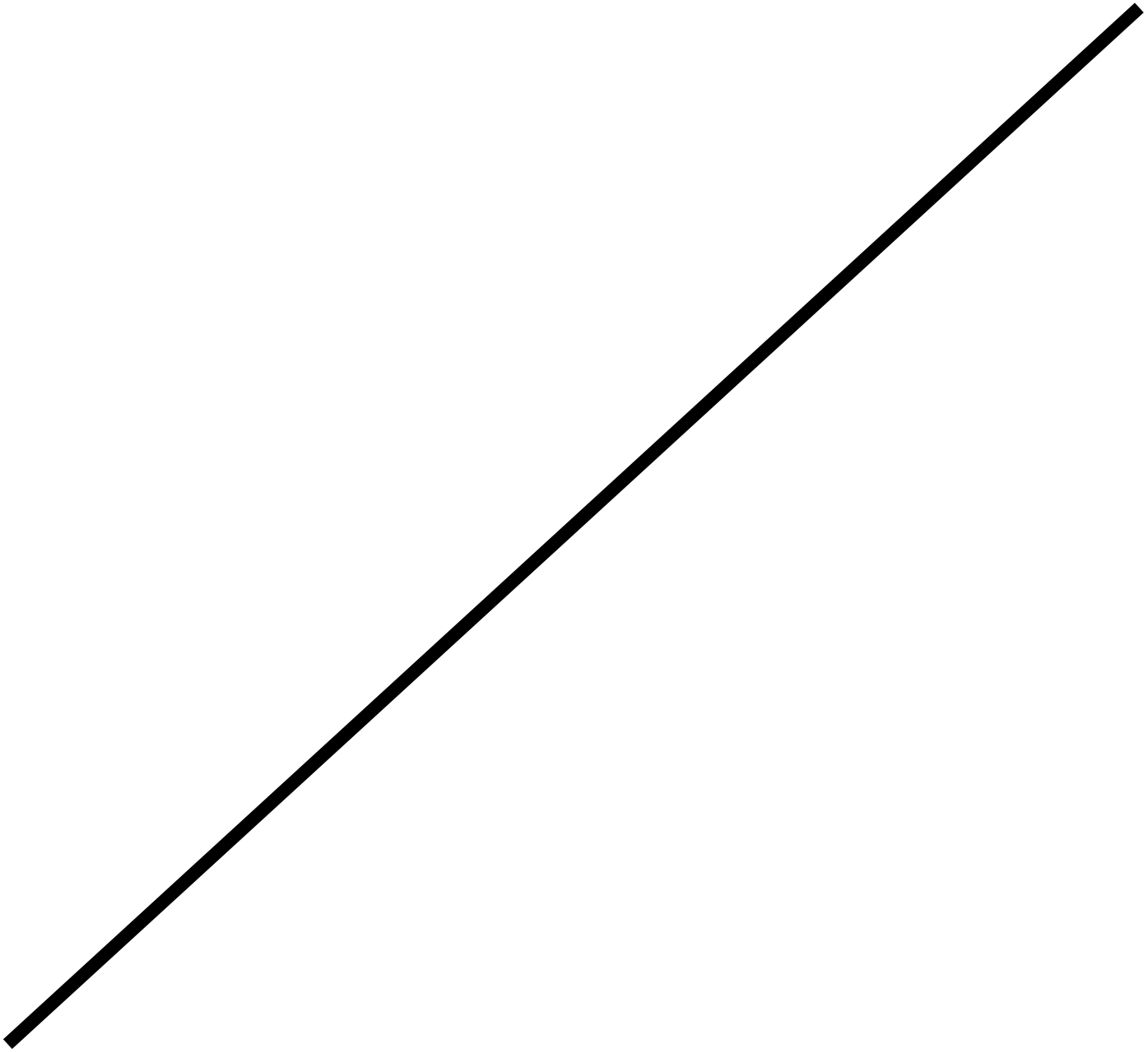
P_1

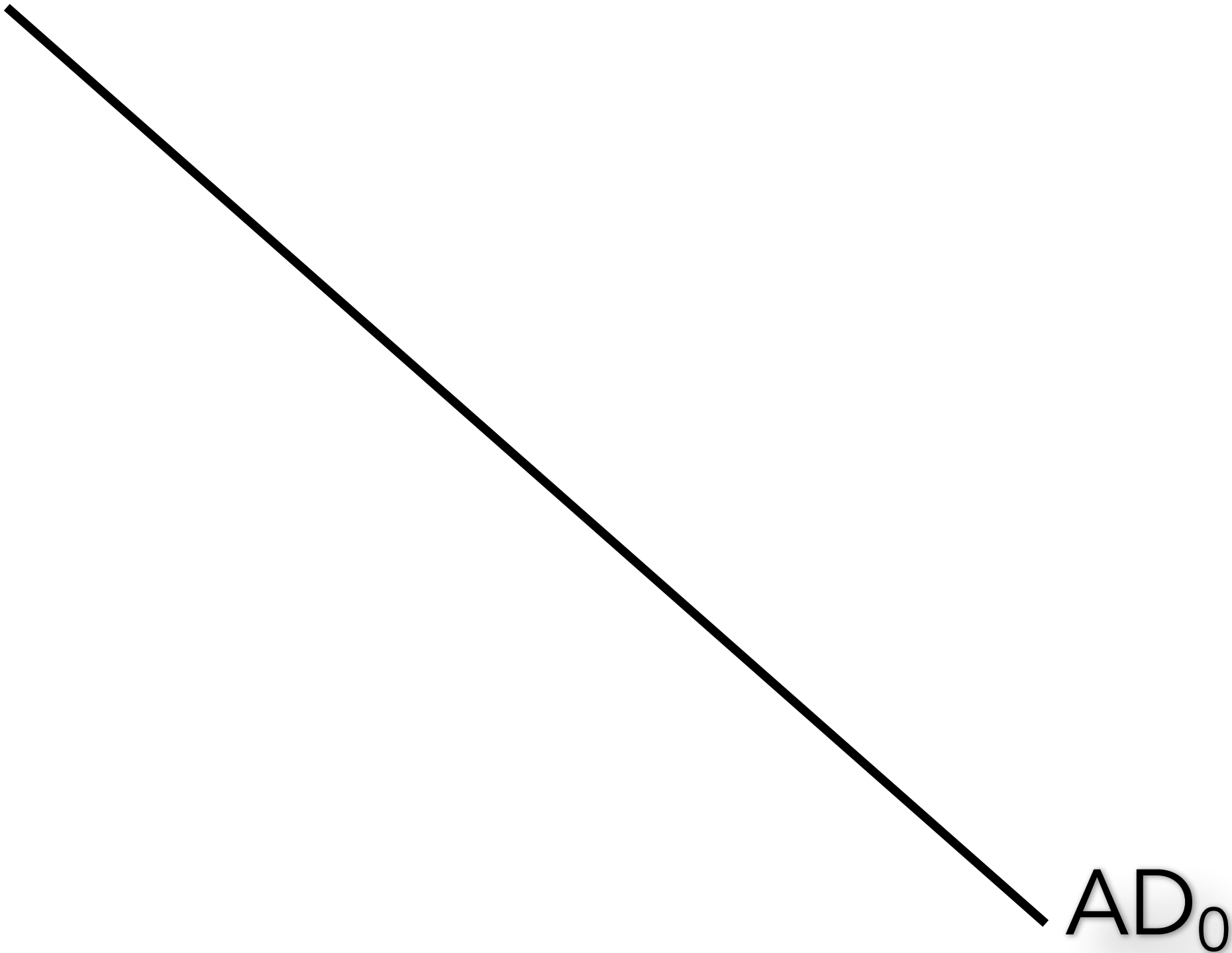
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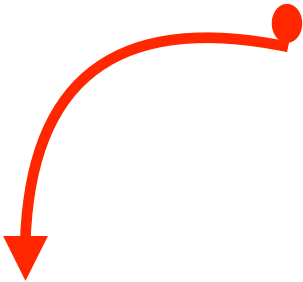
Aggregate Supply when prices = P_0

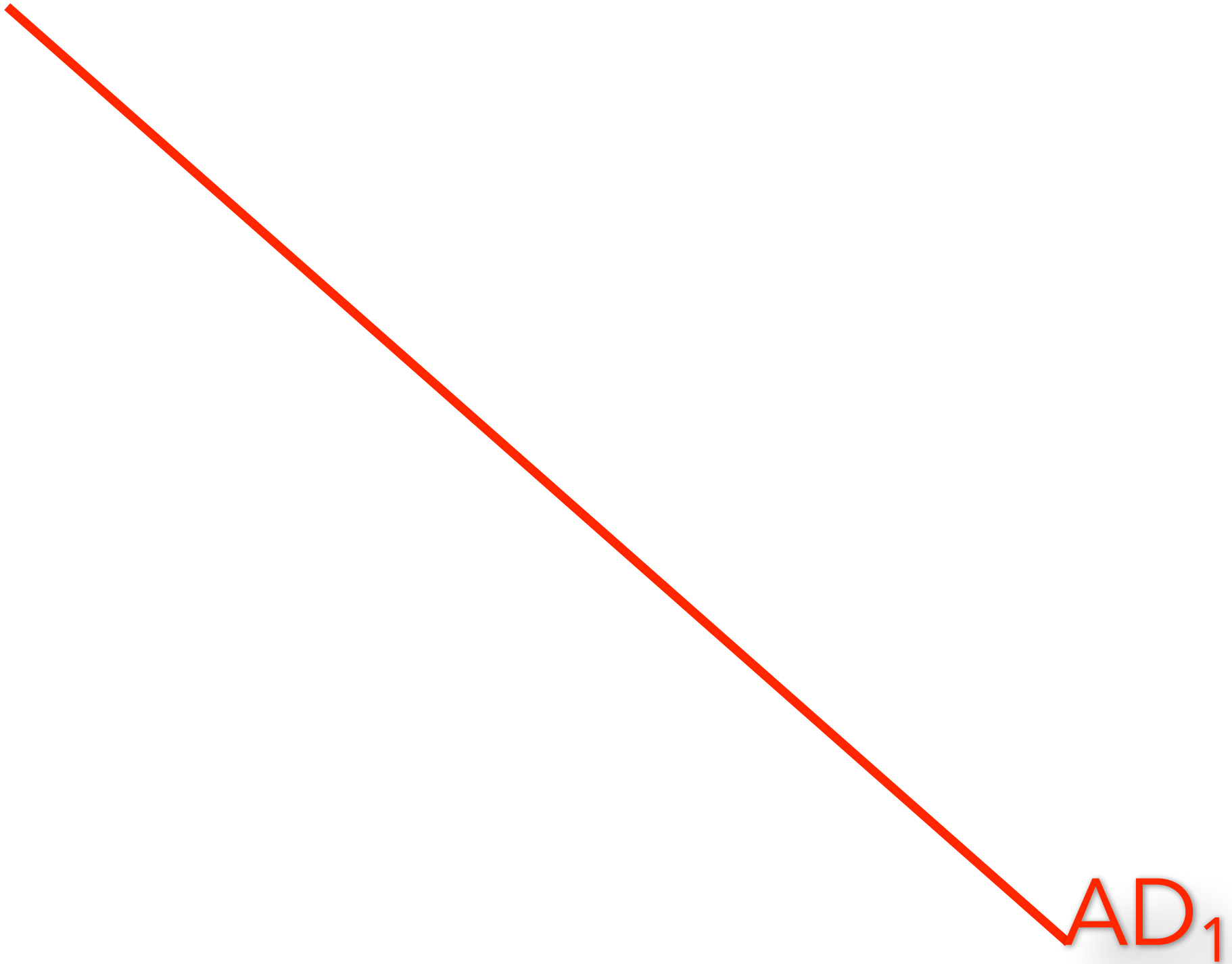


Firms decrease
production and prices











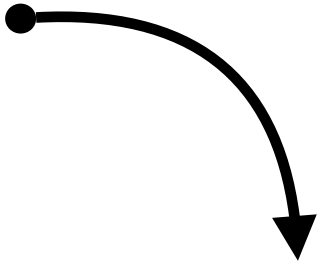
Aggregate Demand when prices = P_0

GDP₁

Inventories
Rise



Decrease in GDP is
smaller than **the**
decrease in AD



As prices fall
AD increase

Price Level
(CPI)



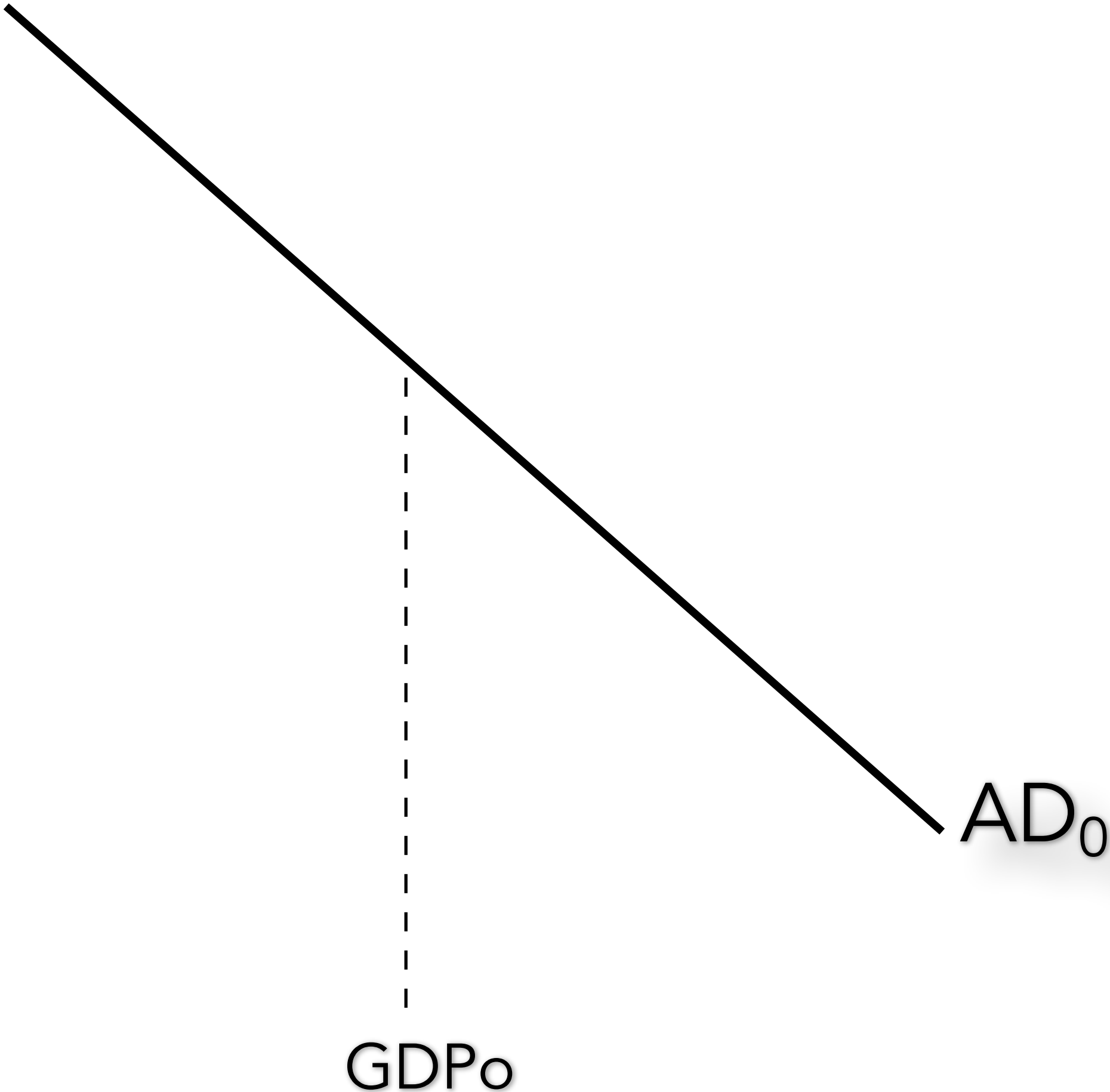
The Effect of an Decrease in Demand

decrease in

Demand





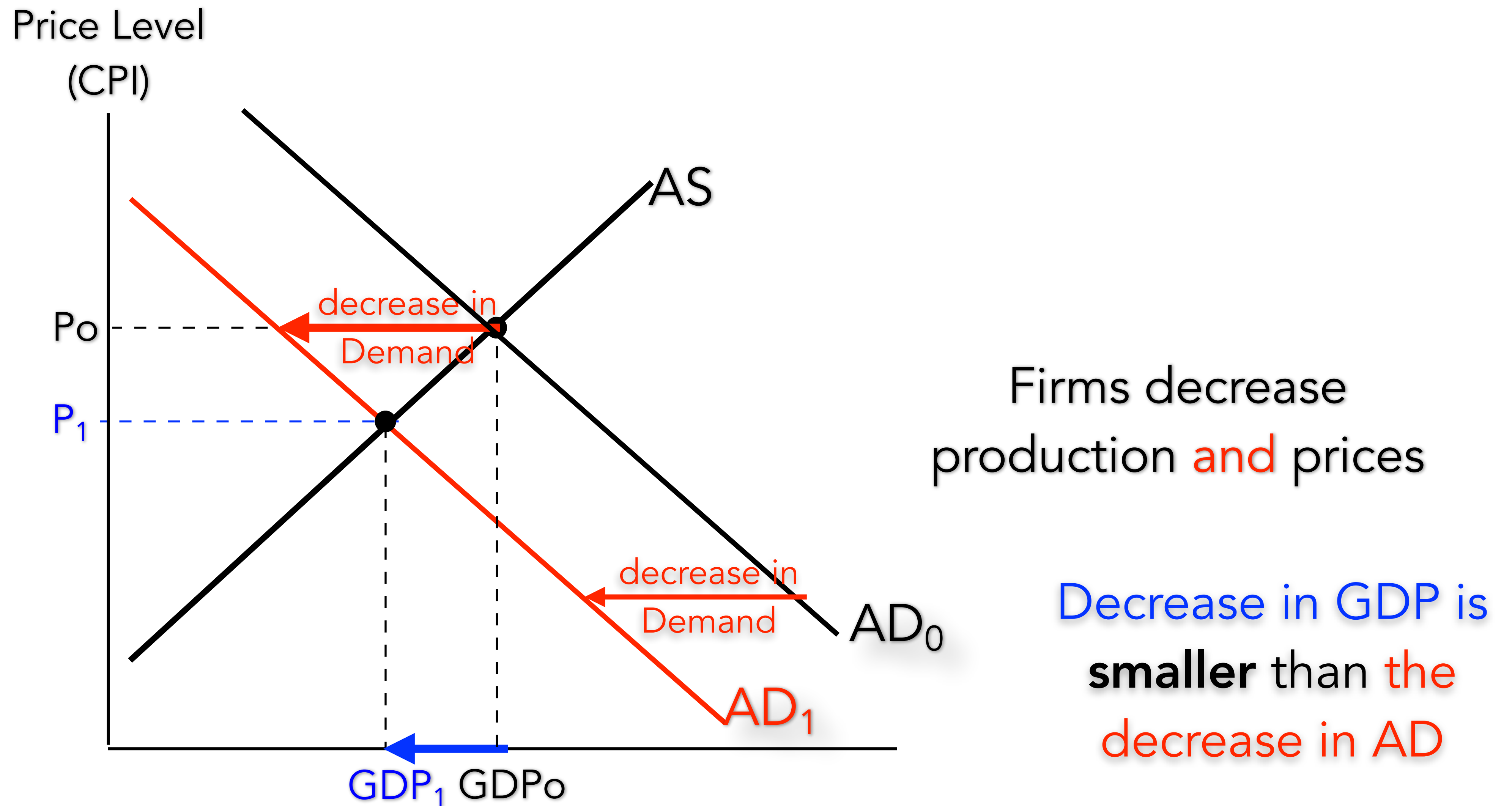


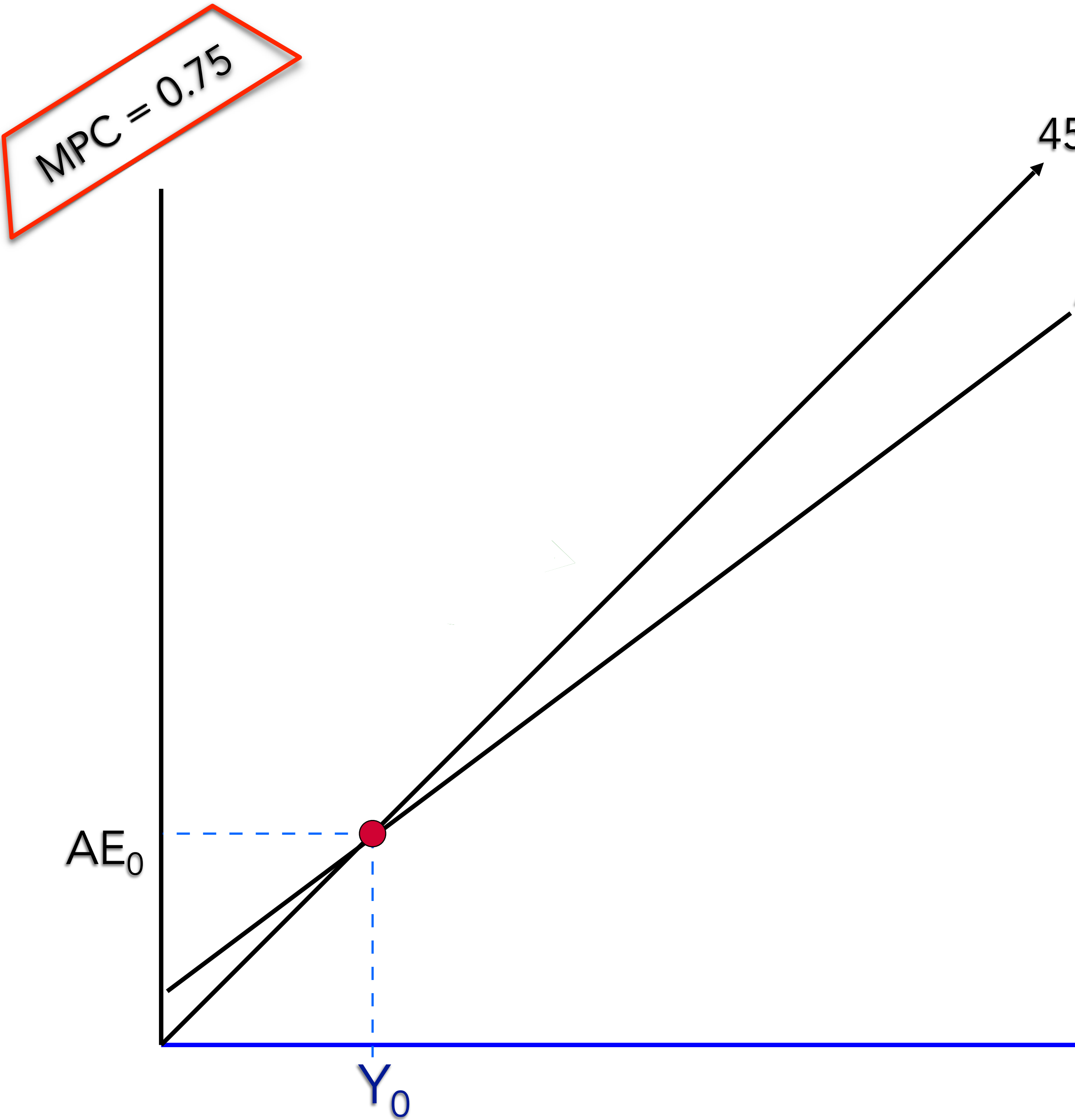
decrease in



Demand

The Effect of an Decrease in Demand





Price Level
(CPI)

