

$AE_0$



$Y_0$

At Potential GDP

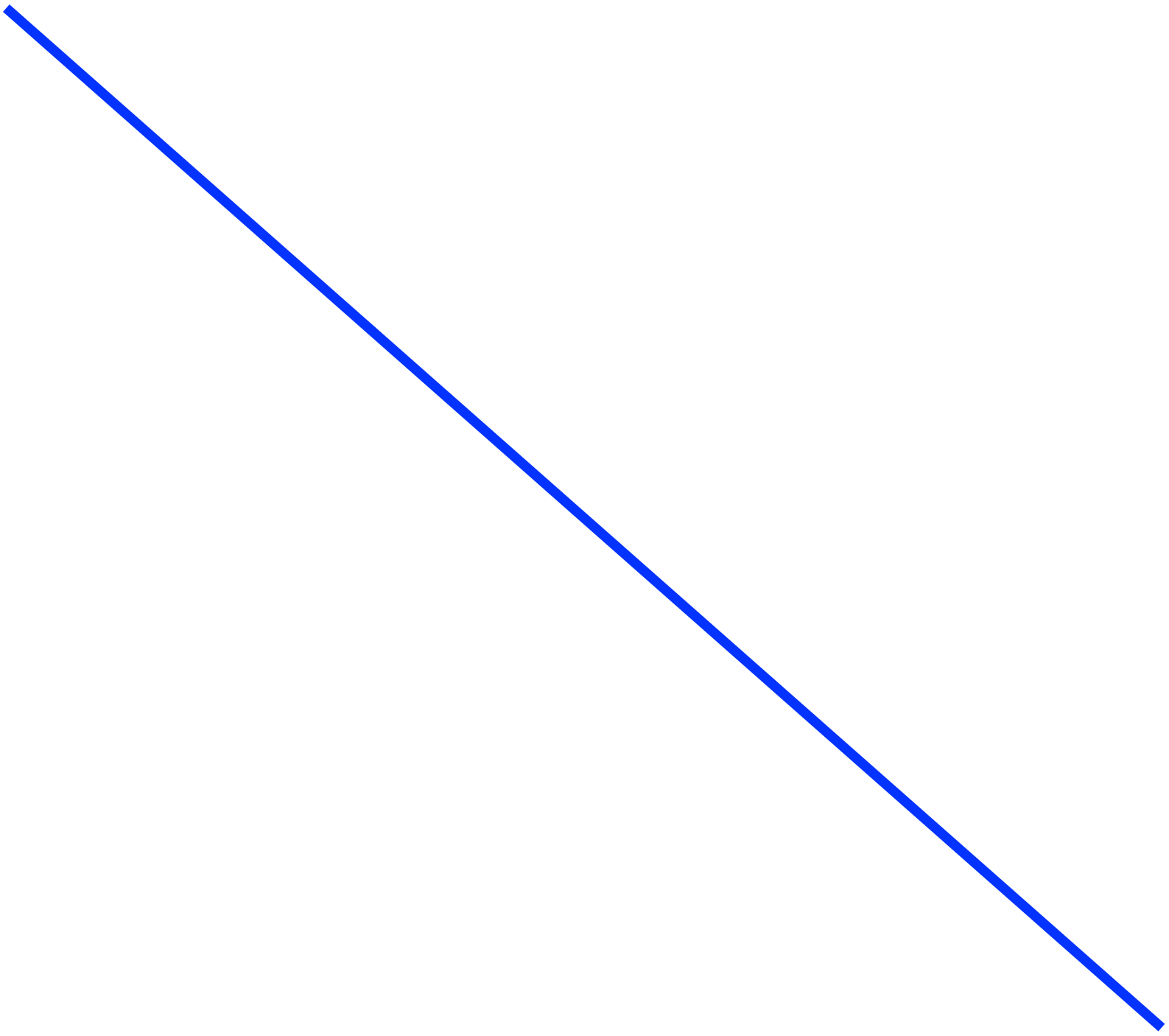


Price Level  
(CPI)









AD<sub>0</sub>

$P_1$

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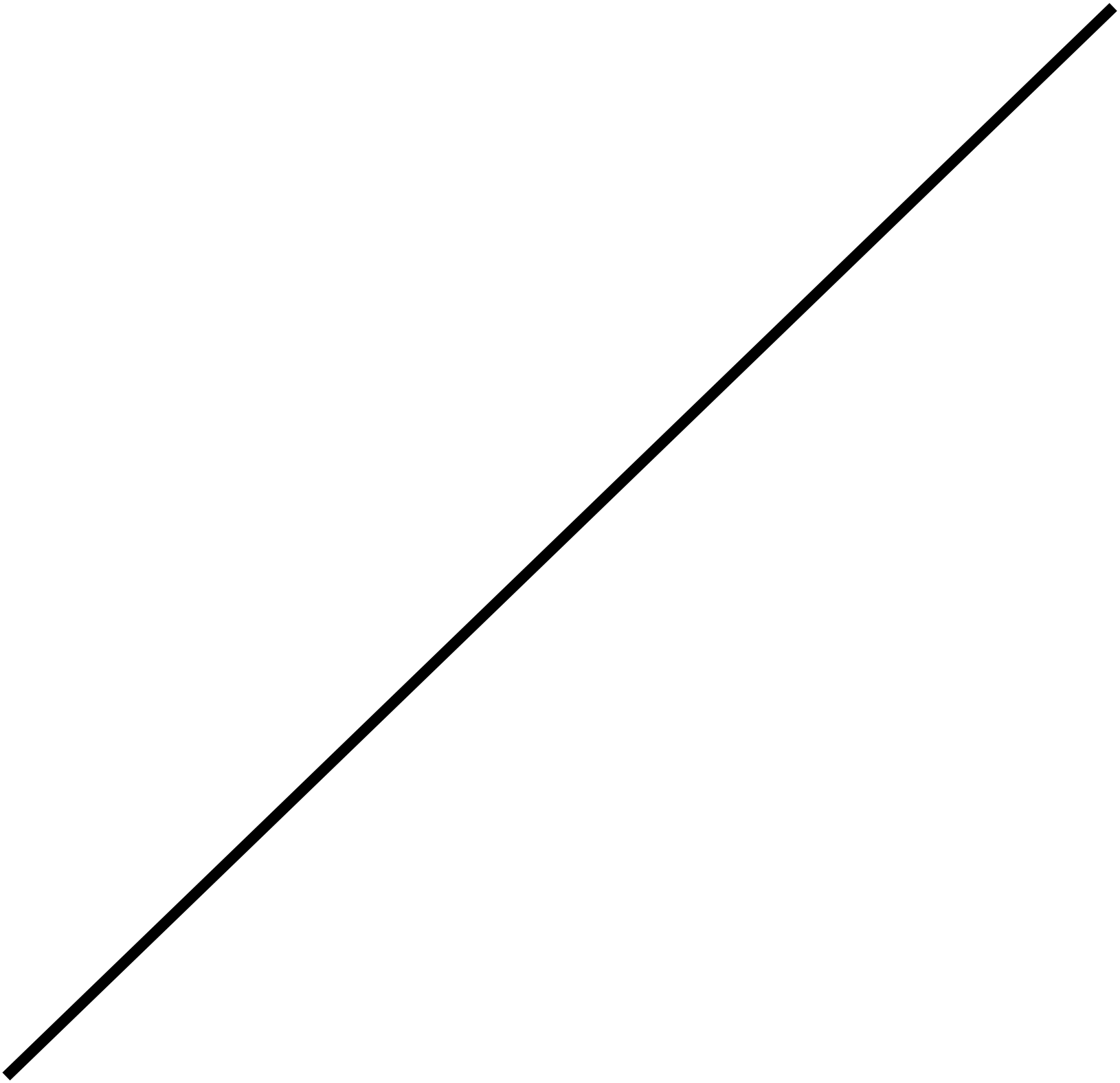
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AS<sub>0</sub>



GDP<sub>0</sub>

At Potential GDP



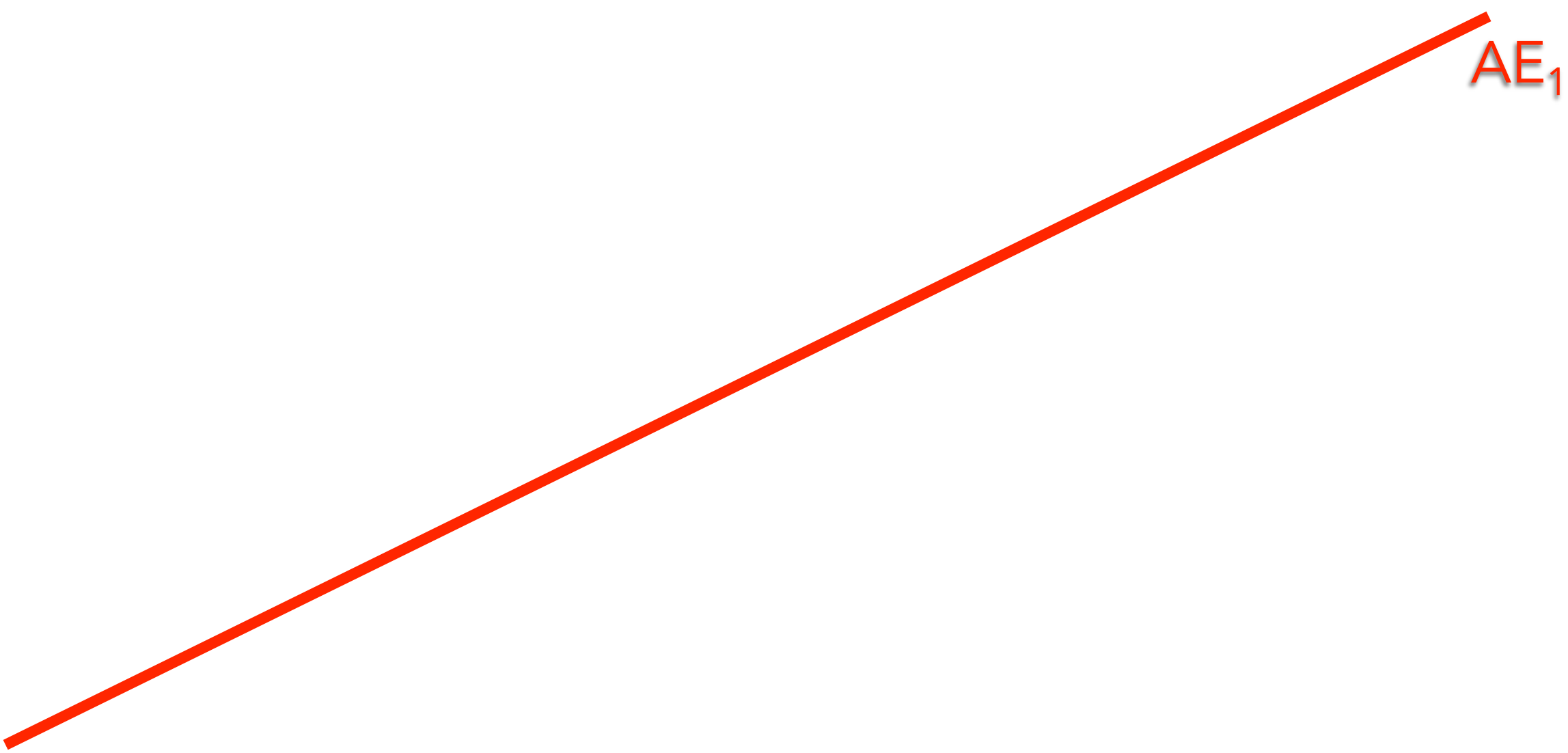


# Recessionary Gap



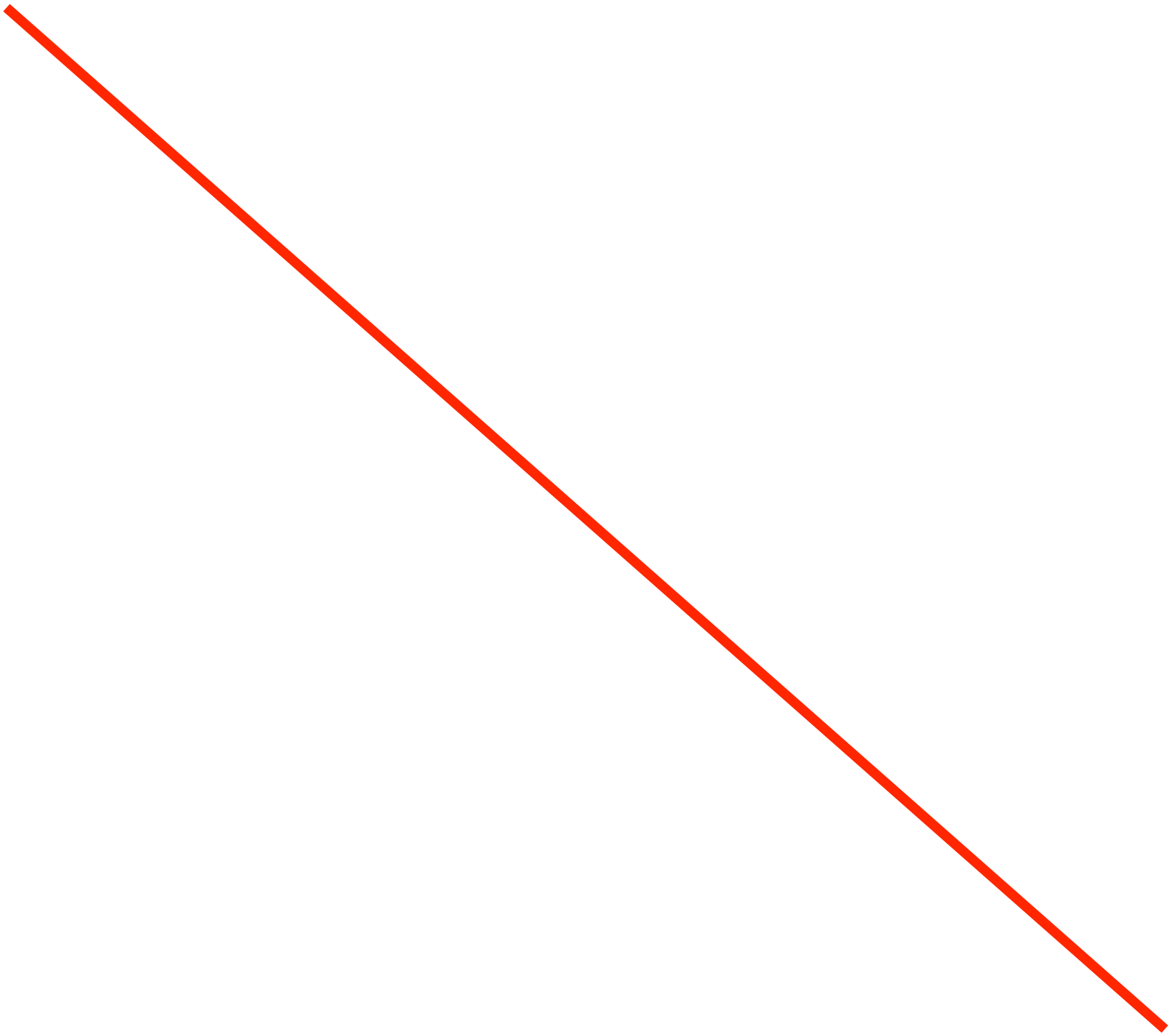
# Recessionary Gap





Increase in AD





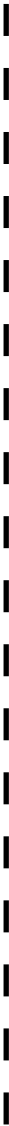
AD<sub>1</sub>

To close a **Recessionary** Gap, Aggregate  
Expenditures and Aggregate Demand  
must **increase**

# P0

[illegible]

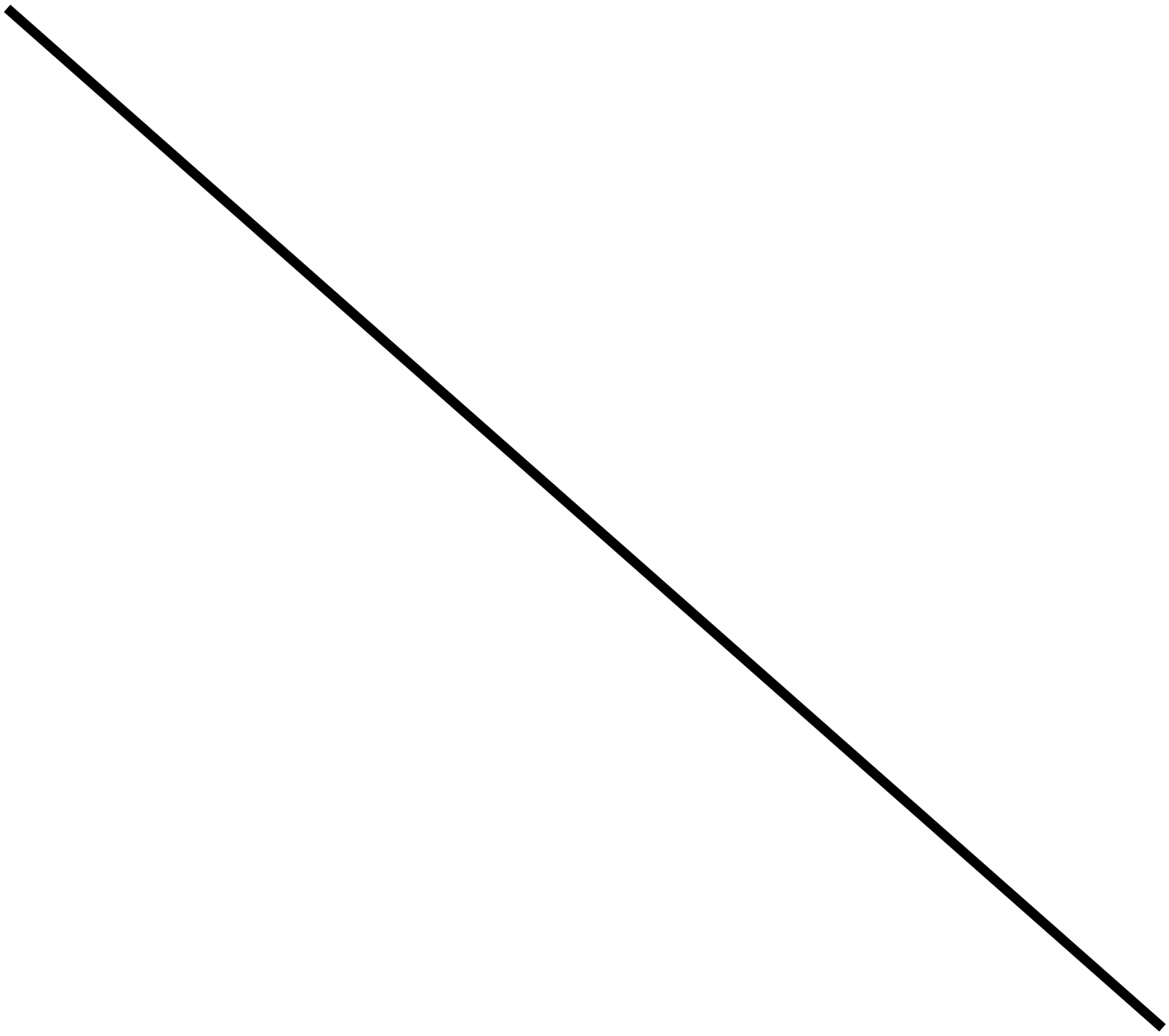




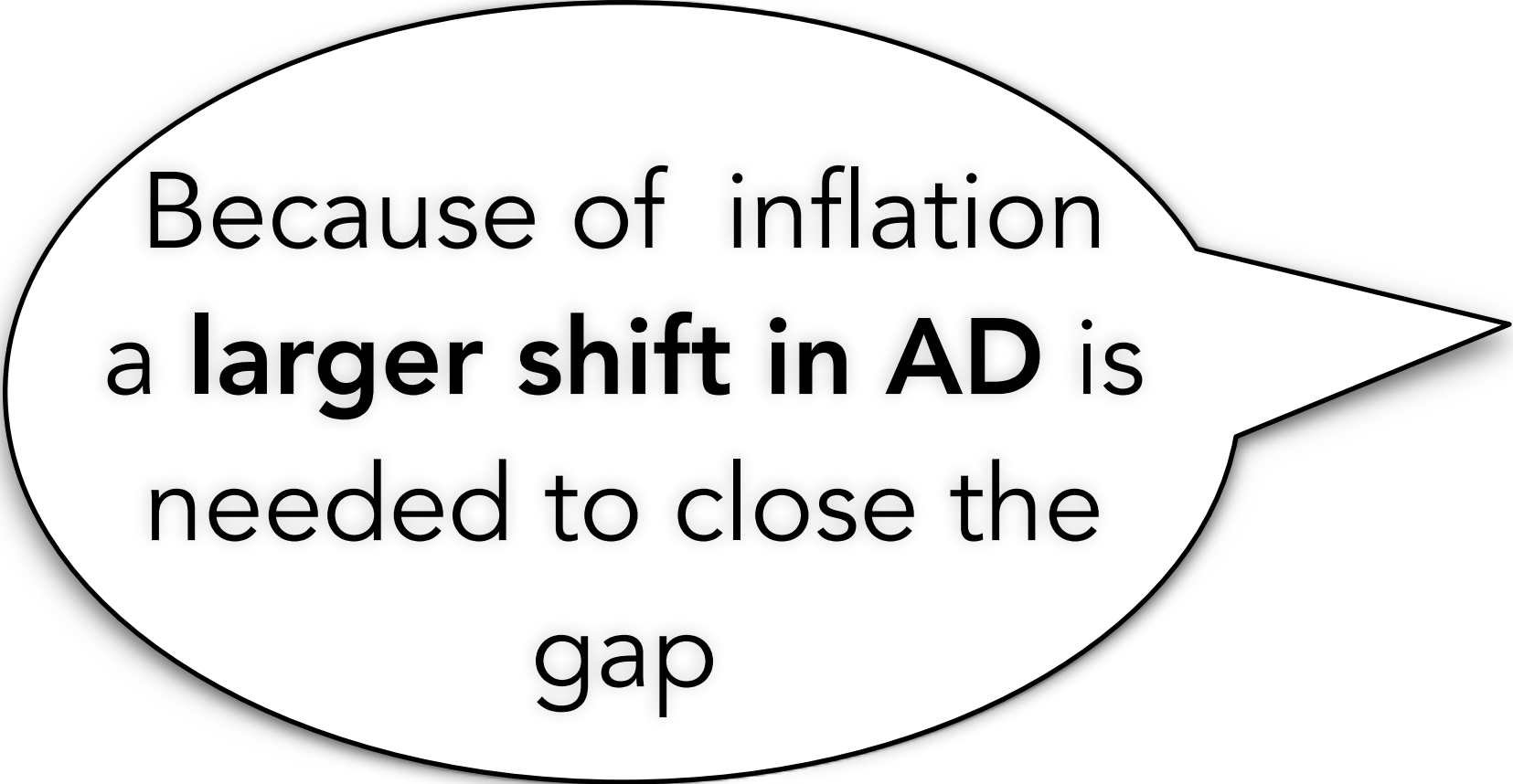
GDP<sub>1</sub>



Inflation **reduces** the size of the multiplier



AD<sub>2</sub>



Because of inflation  
a **larger shift in AD** is  
needed to close the  
gap

$P_2$

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GDP<sub>2</sub>





# Inflation **reduces** the size of the multiplier

