







AE = 4,000

Output

= 4,000

**Potential  
GDP**

AE<sub>0</sub>

1. Is the economy at equilibrium?

2. TotalSpending( $\geq$   $\leq$ ) Output

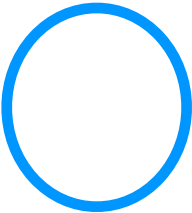
3. Inventories (rise, fall, remain the same)

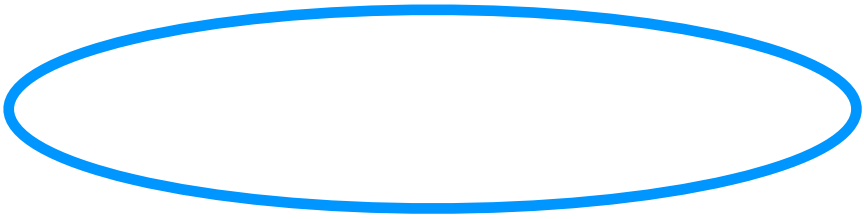


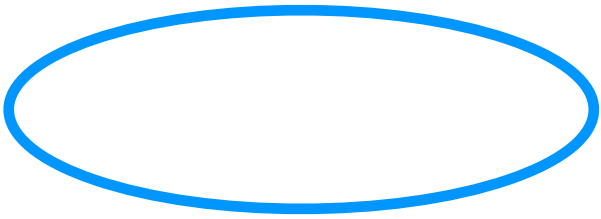
4. Firms will (increase, decrease, not change) output.

5. Once the Economy reaches equilibrium, will the economy experience a (recessionary, inflationary) gap? Size of the Gap = \_\_\_\_\_

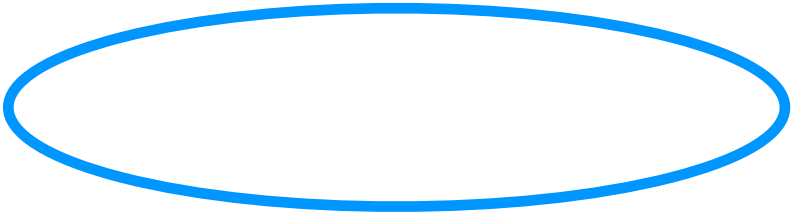
6. At equilibrium the economy experiences (unemployment/labor shortage)







5000-4000=1000 or EB





4000

5000

Yes



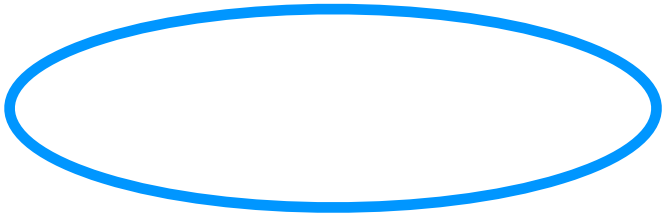
Recessionary gap



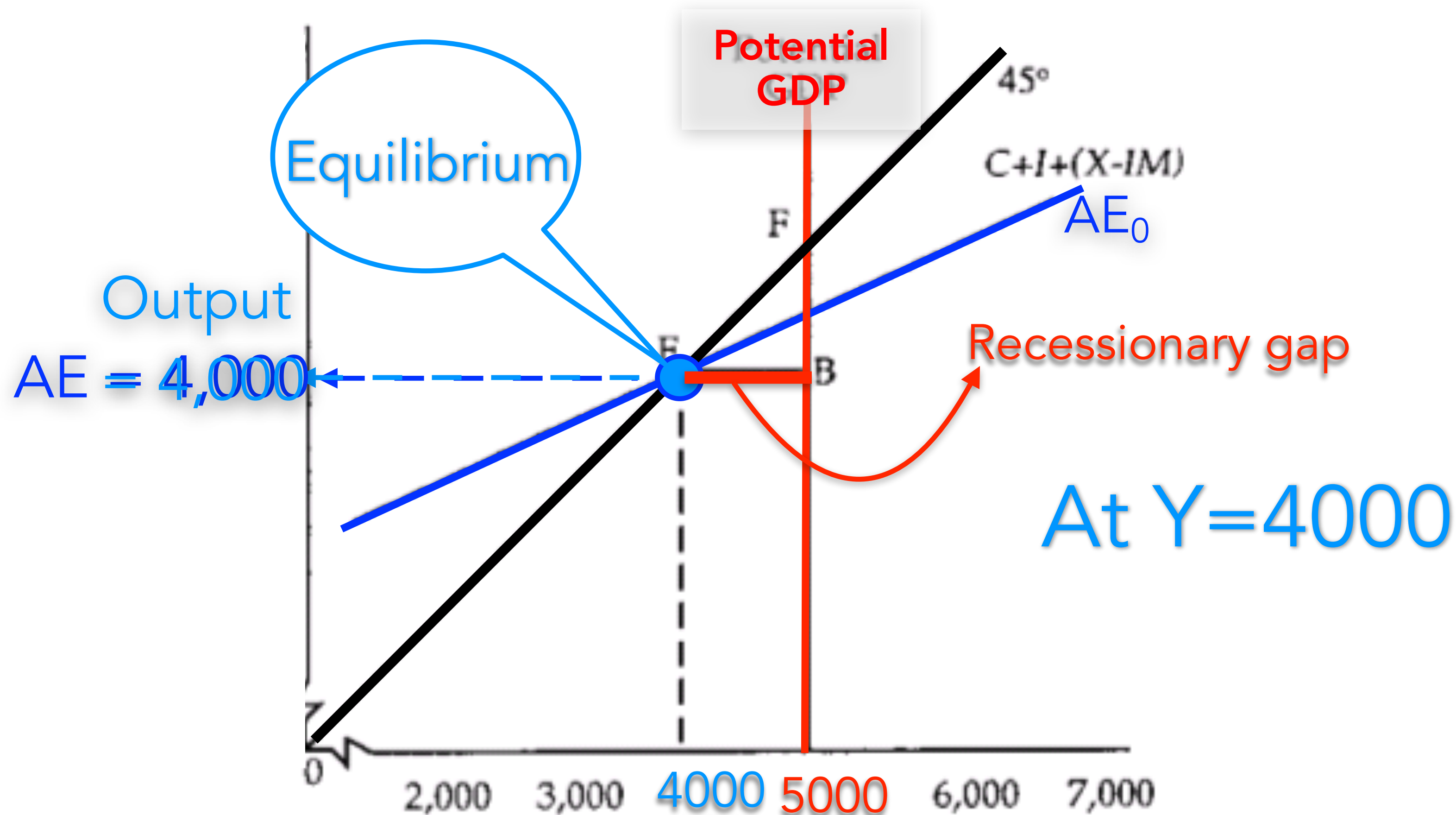


Equilibrium

At Y=40000







1. Is the economy at equilibrium? Yes
2. Total Spending(  $> = <$  )Output
3. Inventories (rise, fall, remain the same)
4. Firms will (increase, decrease, not change) output.
5. Once the Economy reaches equilibrium, will the economy experience a (recessionary, inflationary) gap? Size of the Gap =  $5000 - 4000 = 1000$  or **EB**
6. At equilibrium the economy experiences (unemployment/labor shortages)

