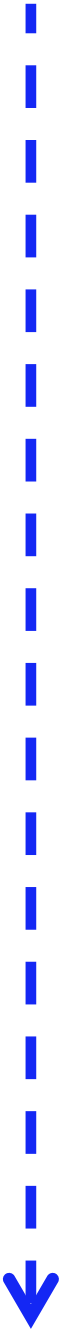


A

E



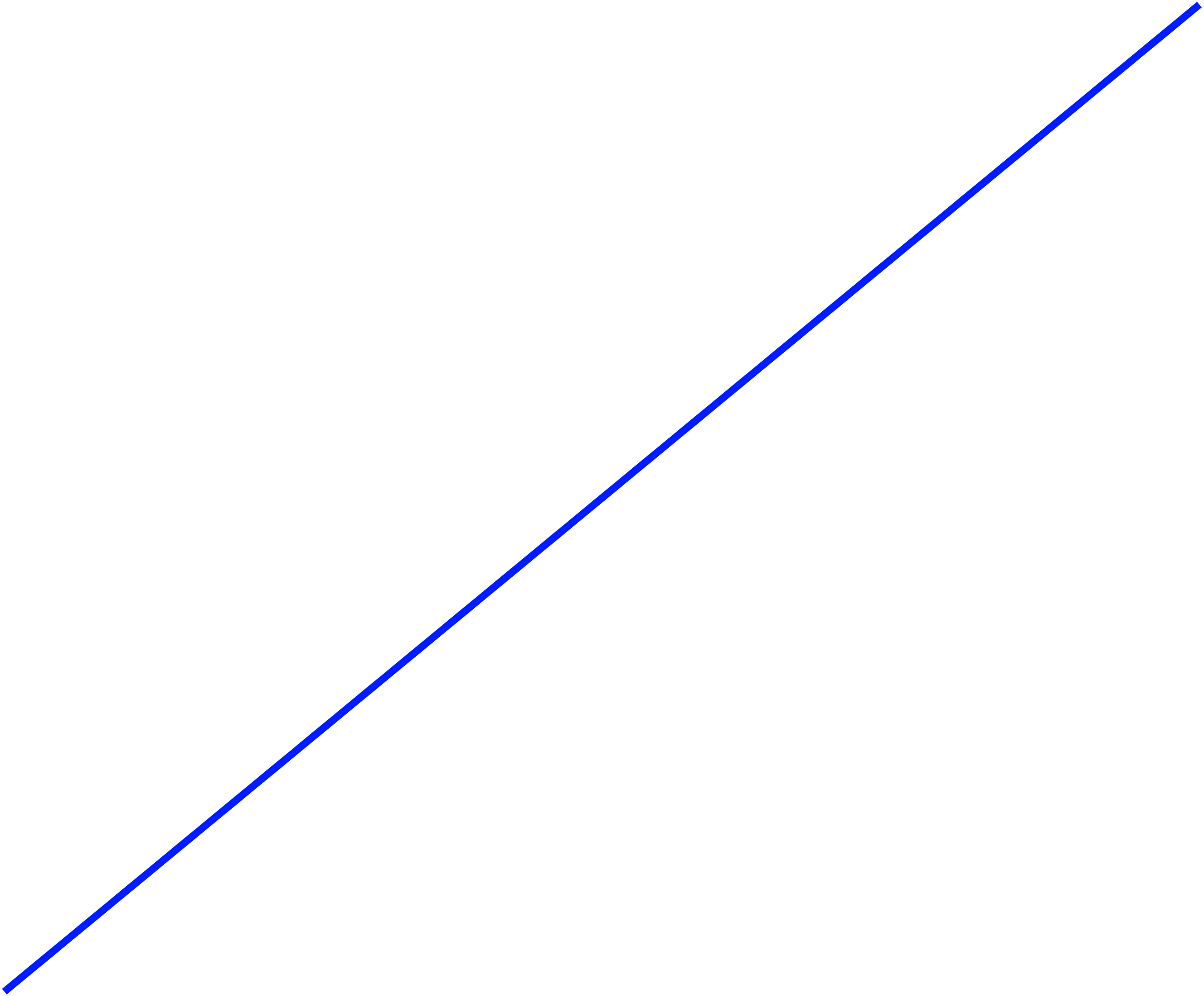


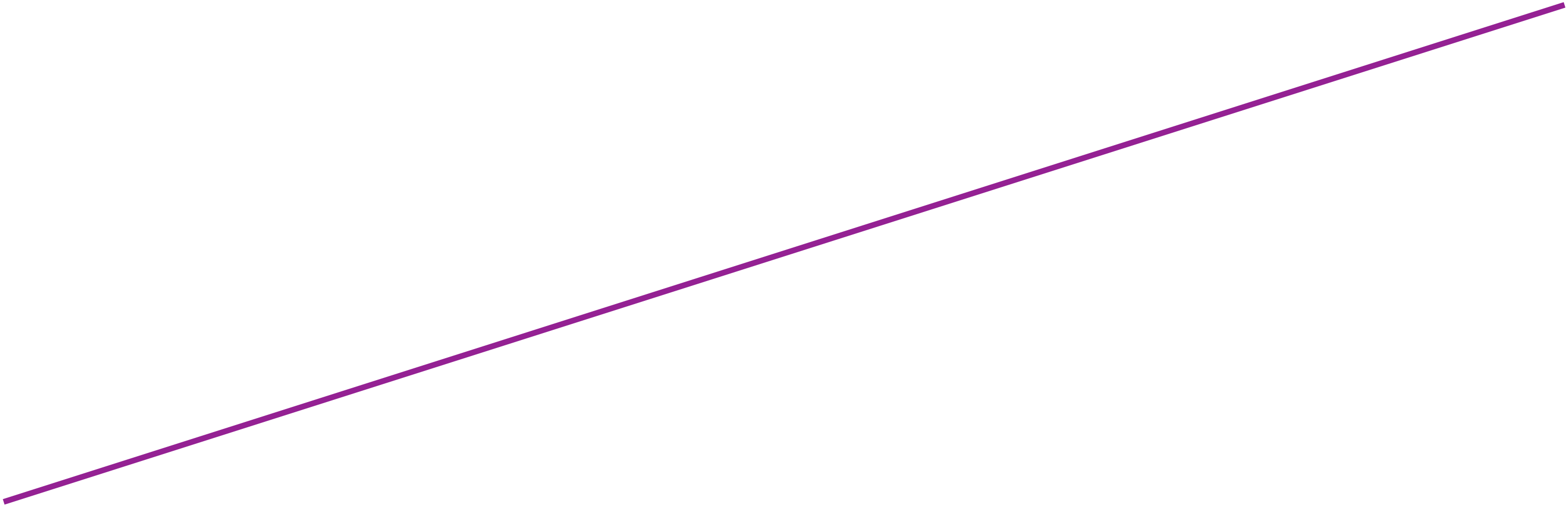
A

E

Total
Production









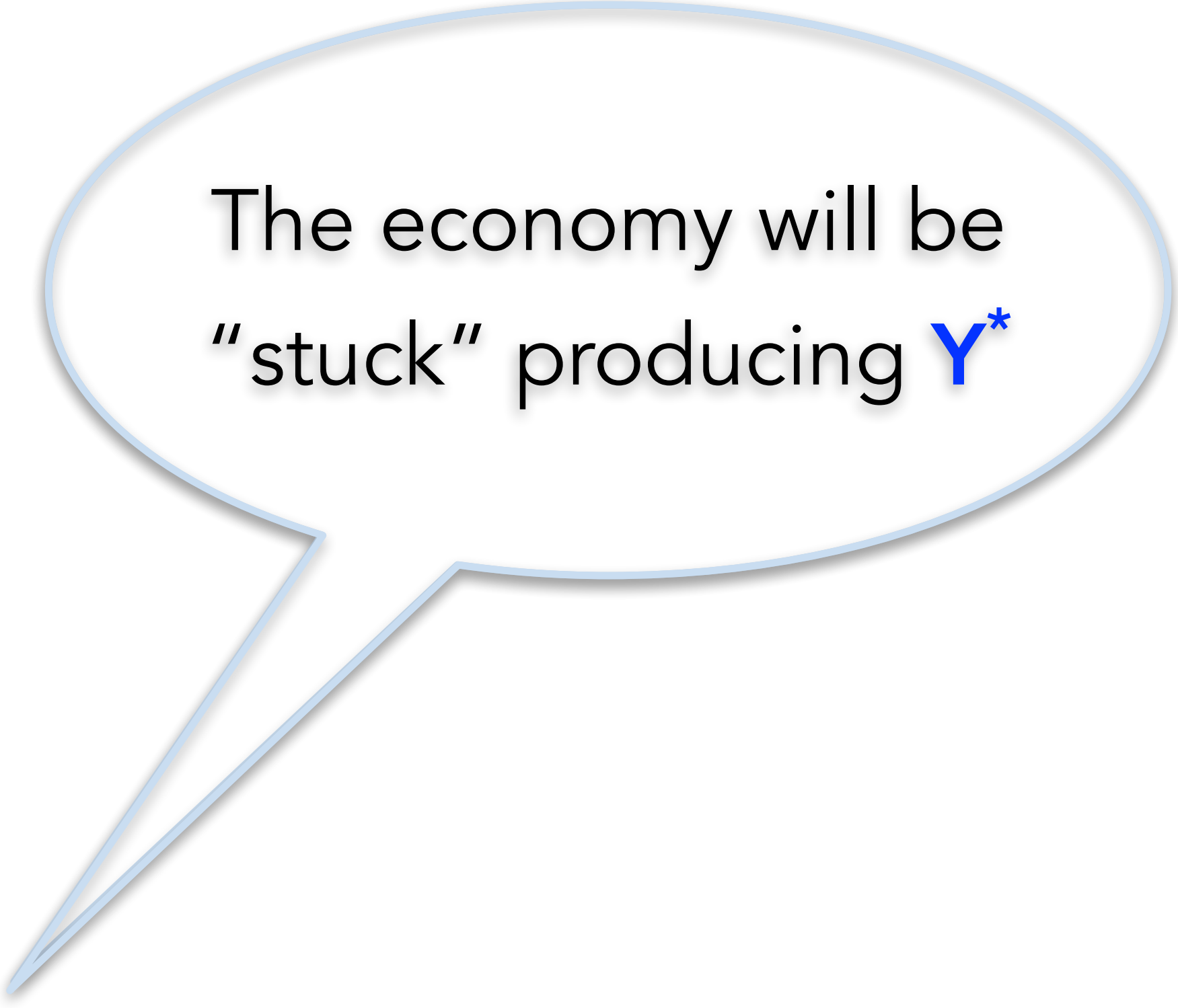
AE

=

Y*







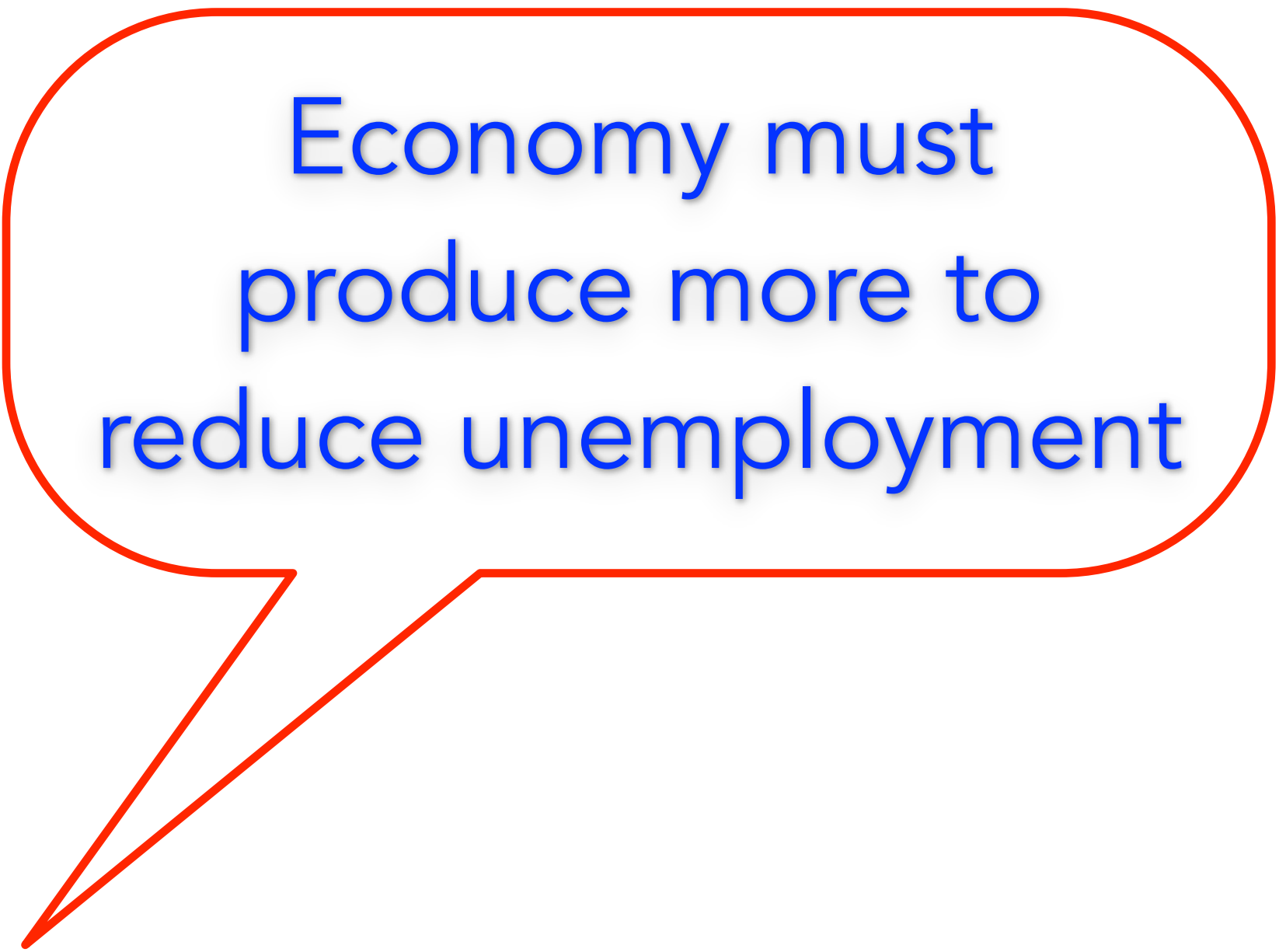
The economy will be
"stuck" producing Y^*

Equilibrium output may
be "too low" with
massive unemployment

Potential
GDP



Zero Unemployment
No excess capacity



Economy must
produce more to
reduce unemployment

unemployment

Equilibrium output may
be "too low" with
massive unemployment

