
AS

AD

120

130

140

3000

3200

3400

If the price level is 140

1. The quantity of goods supplied is equal to ______

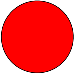
2. The quantity of goods demanded is equal to ______

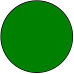
3. Inventories will ______________________________

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

3400 Produce

Purchase 3000





140

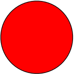
3400

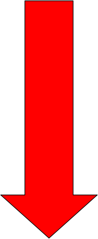
3000

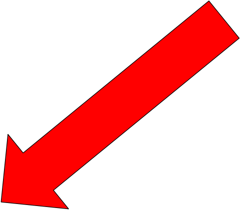
Increase by 400

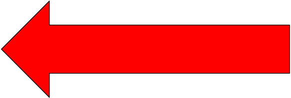
Decreasing

Decreasing





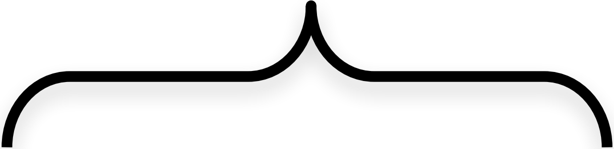




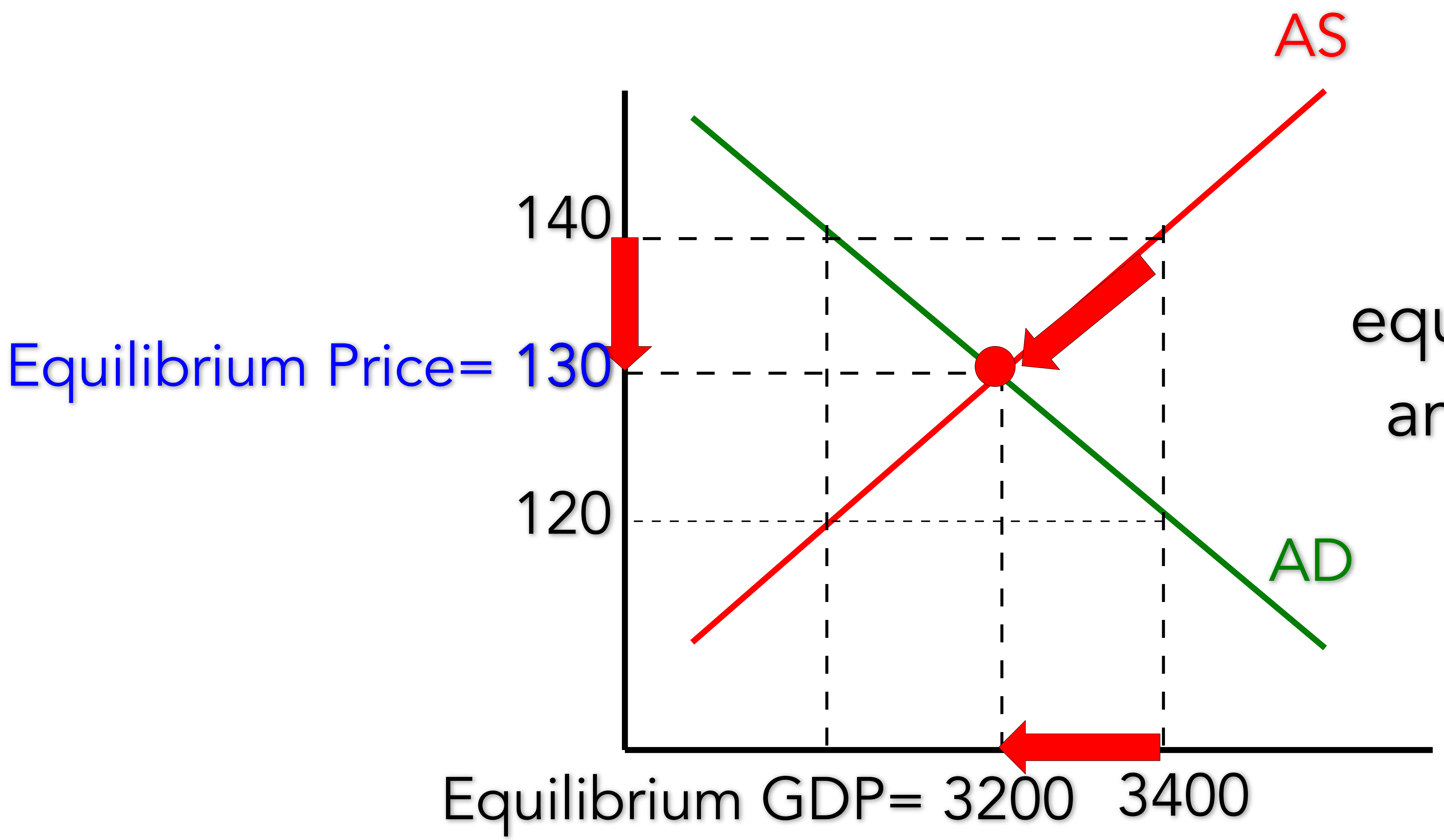
Equilibrium Price= 130

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



$$\Delta \text{Inventories} = 3400 - 3000 = +400$$



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