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GDP_o

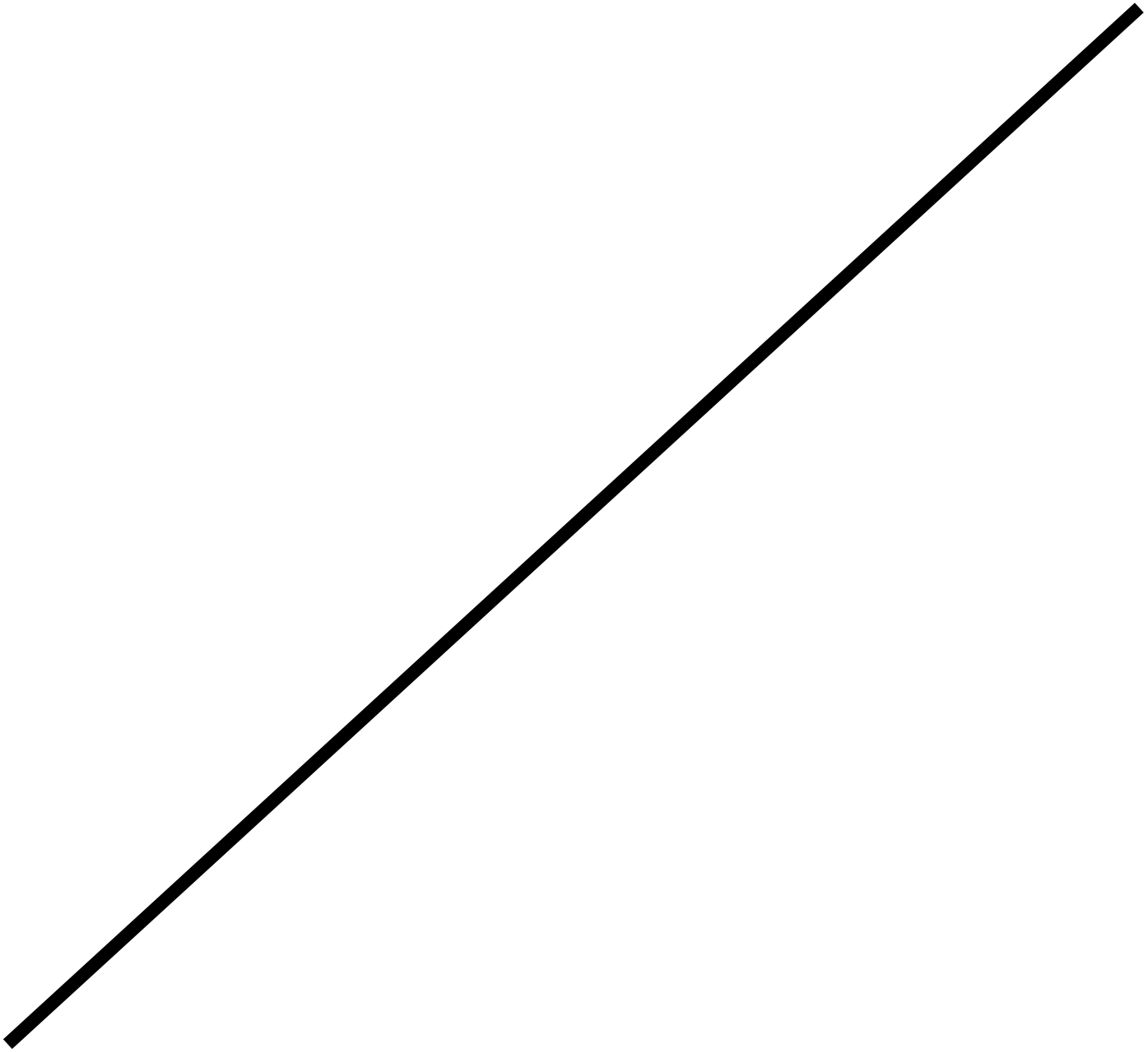
P_1

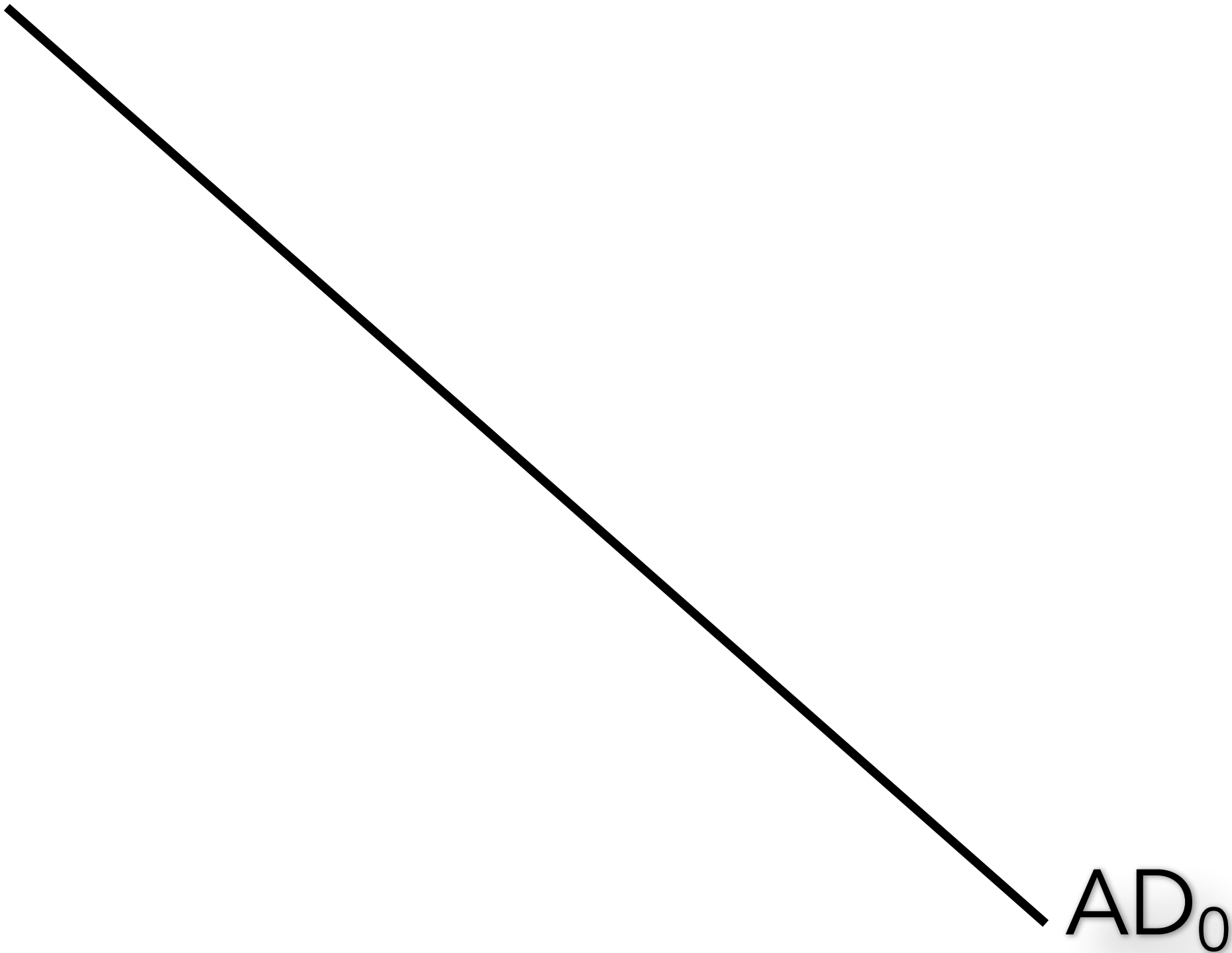
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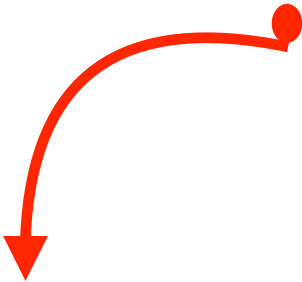
Aggregate Supply when prices = P_o

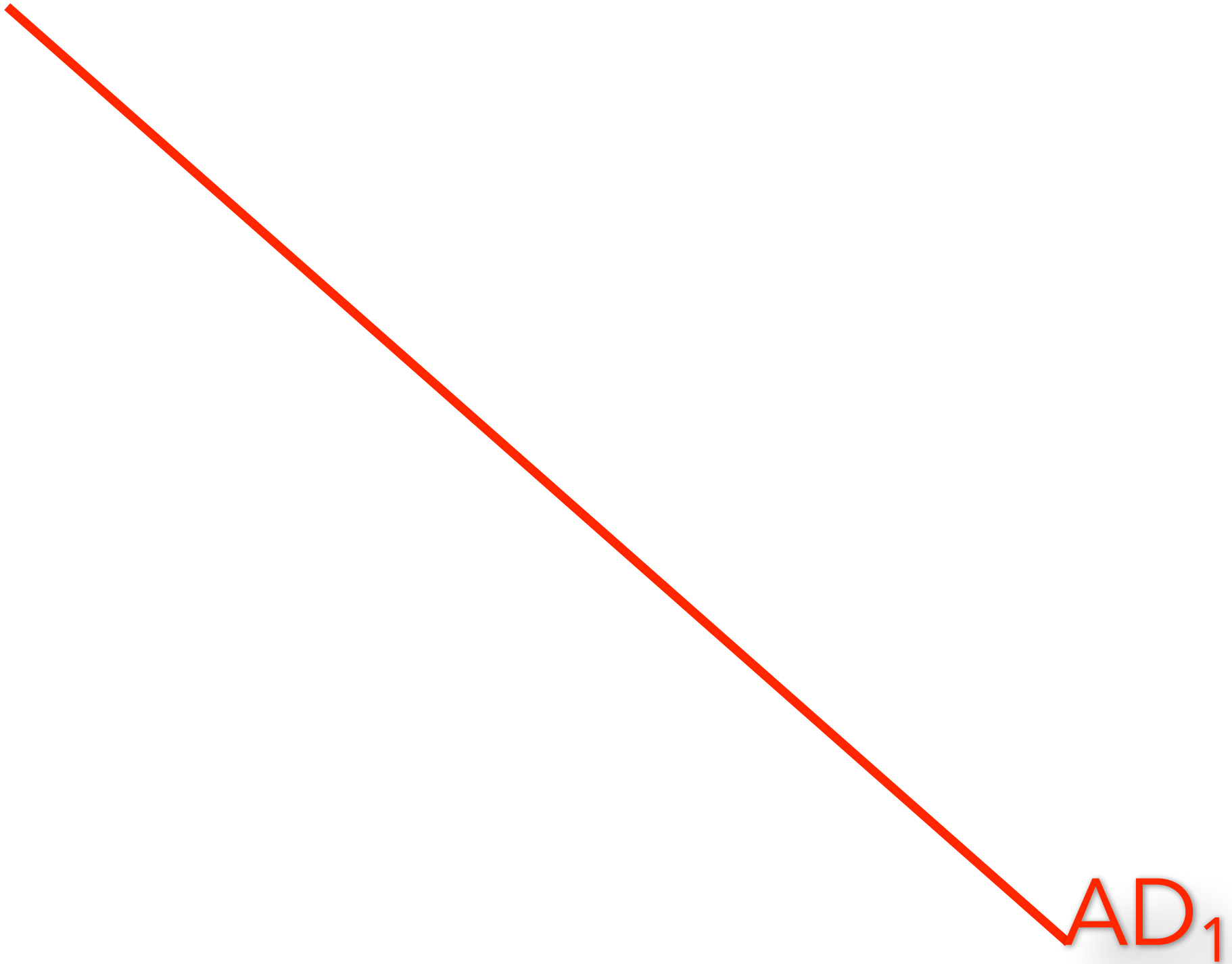


Firms decrease
production and prices











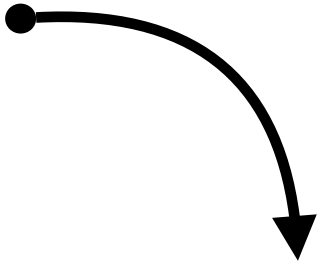
Aggregate Demand when prices = P_0

GDP₁

Inventories
Rise



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



As prices fall
AD increase

Price Level
(CPI)



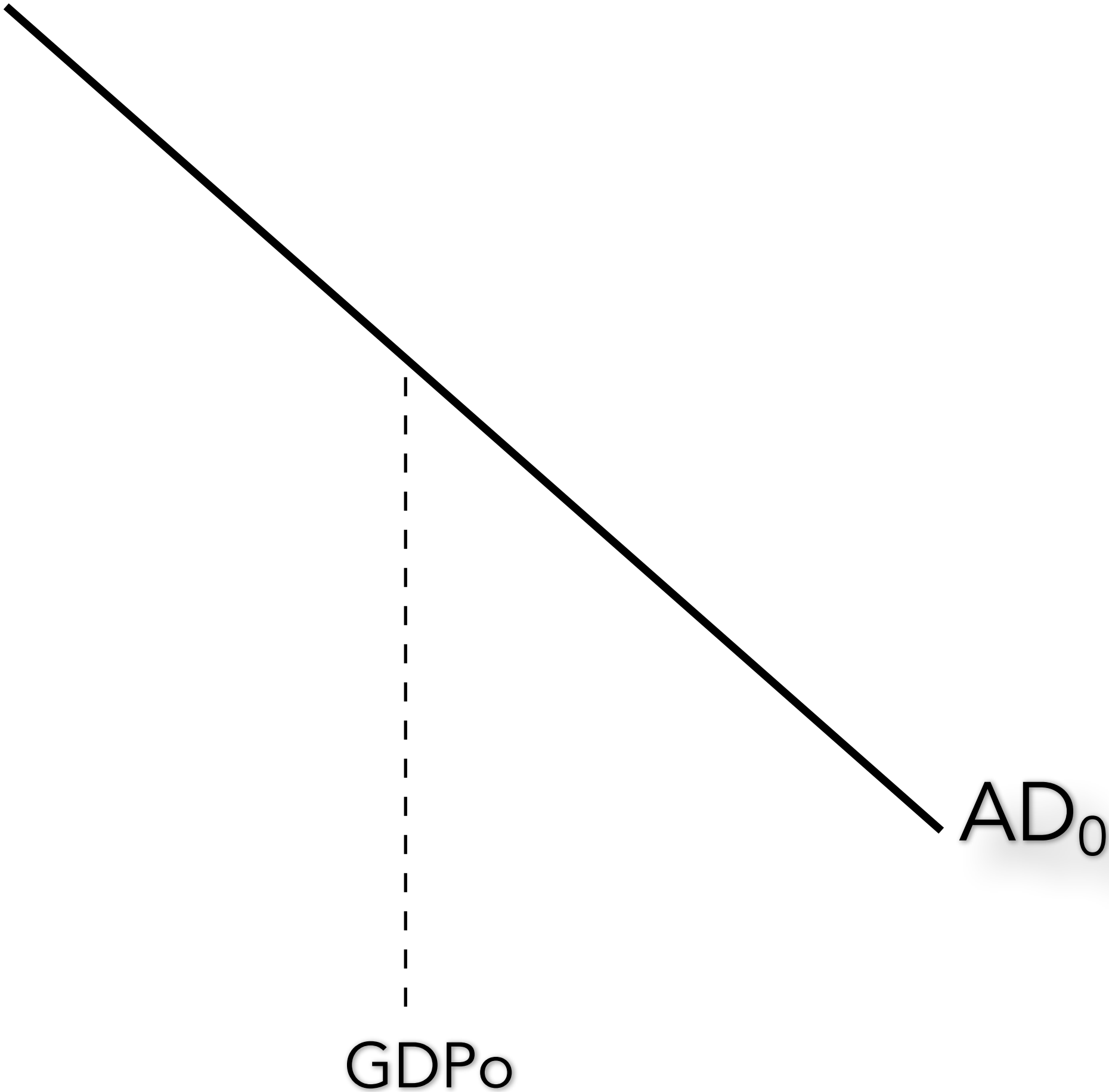
The Effect of an Decrease in Demand

decrease in

Demand





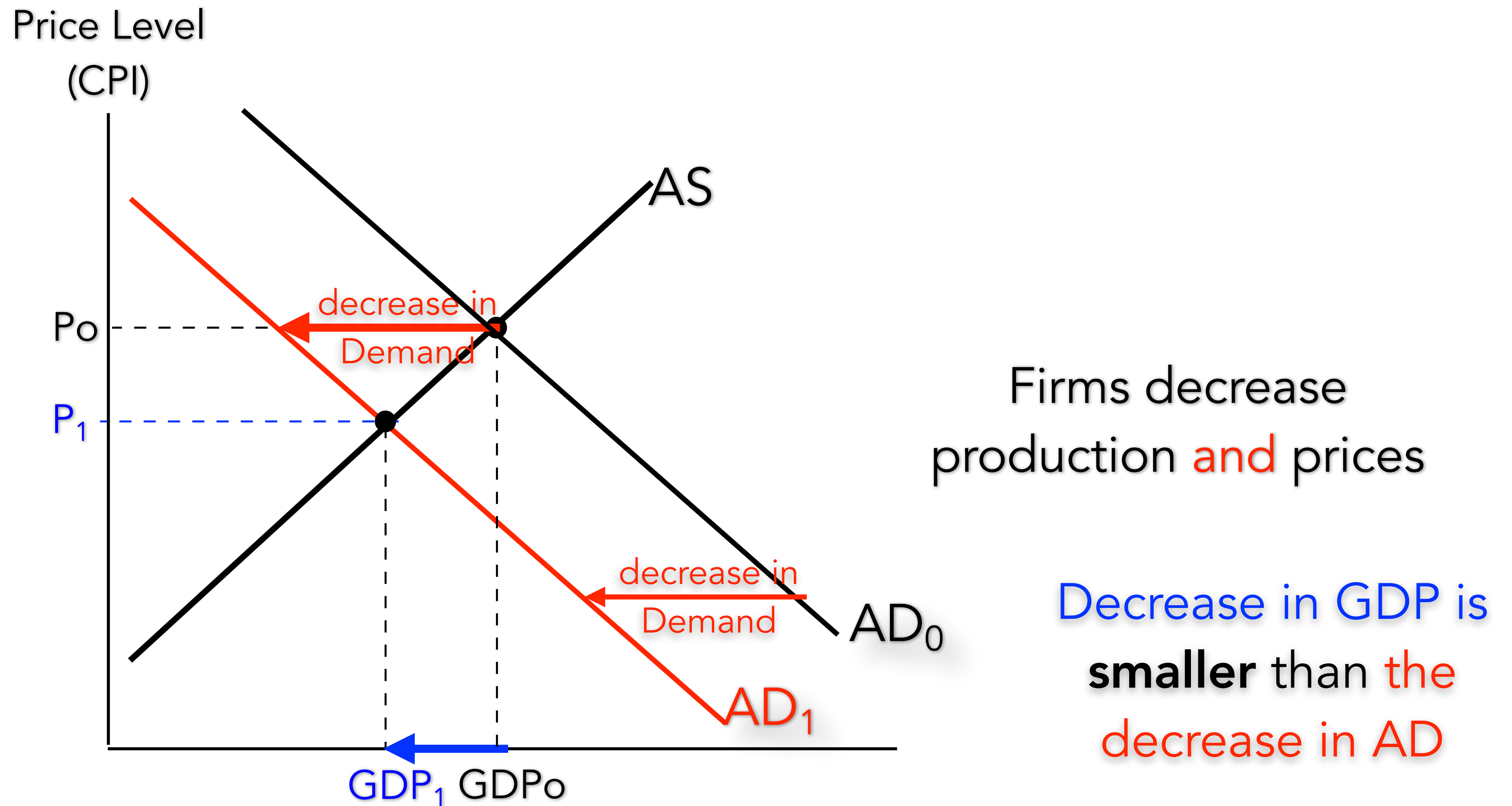


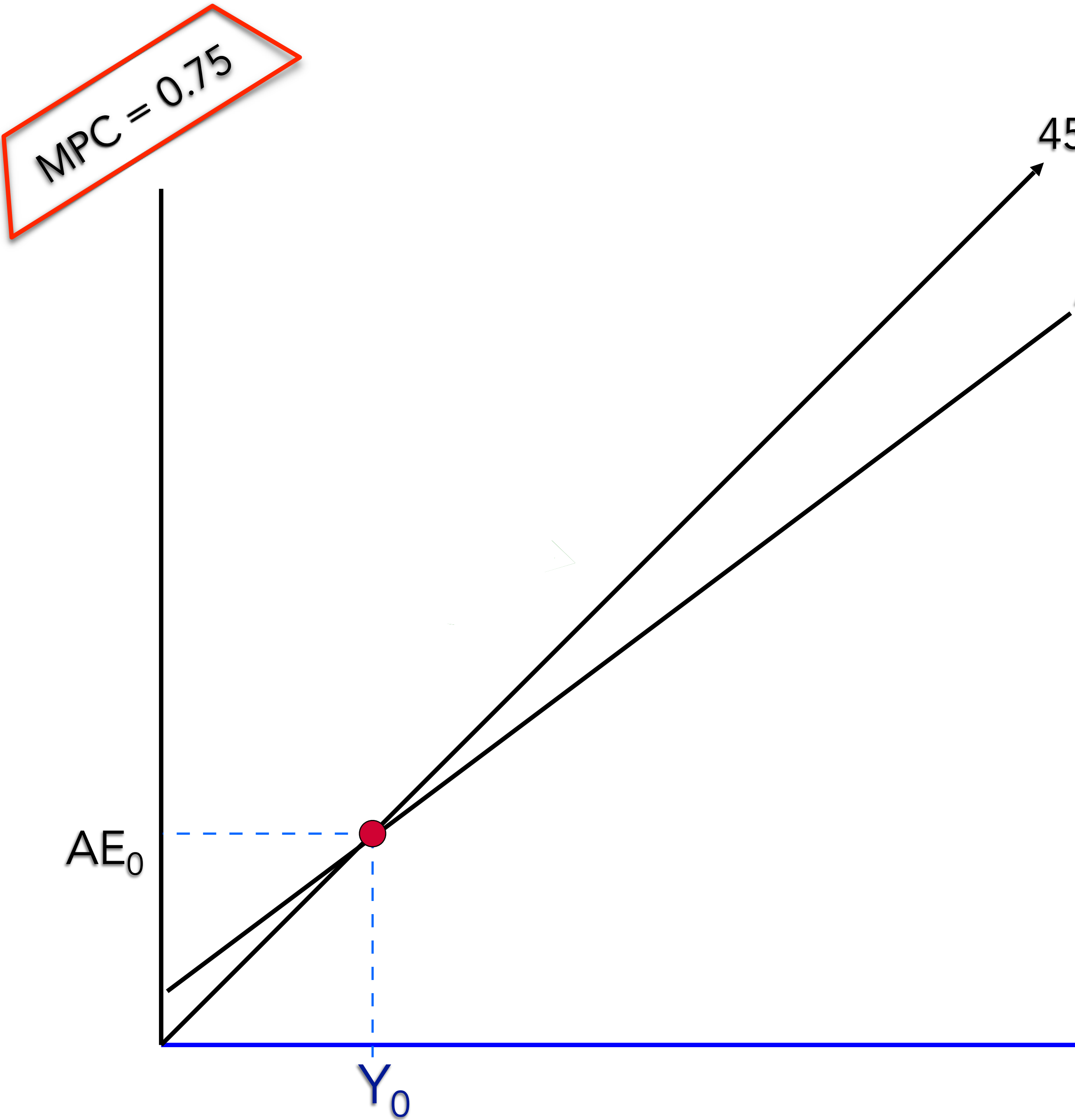
decrease in



Demand

The Effect of an Decrease in Demand





Price Level
(CPI)

