

A

E

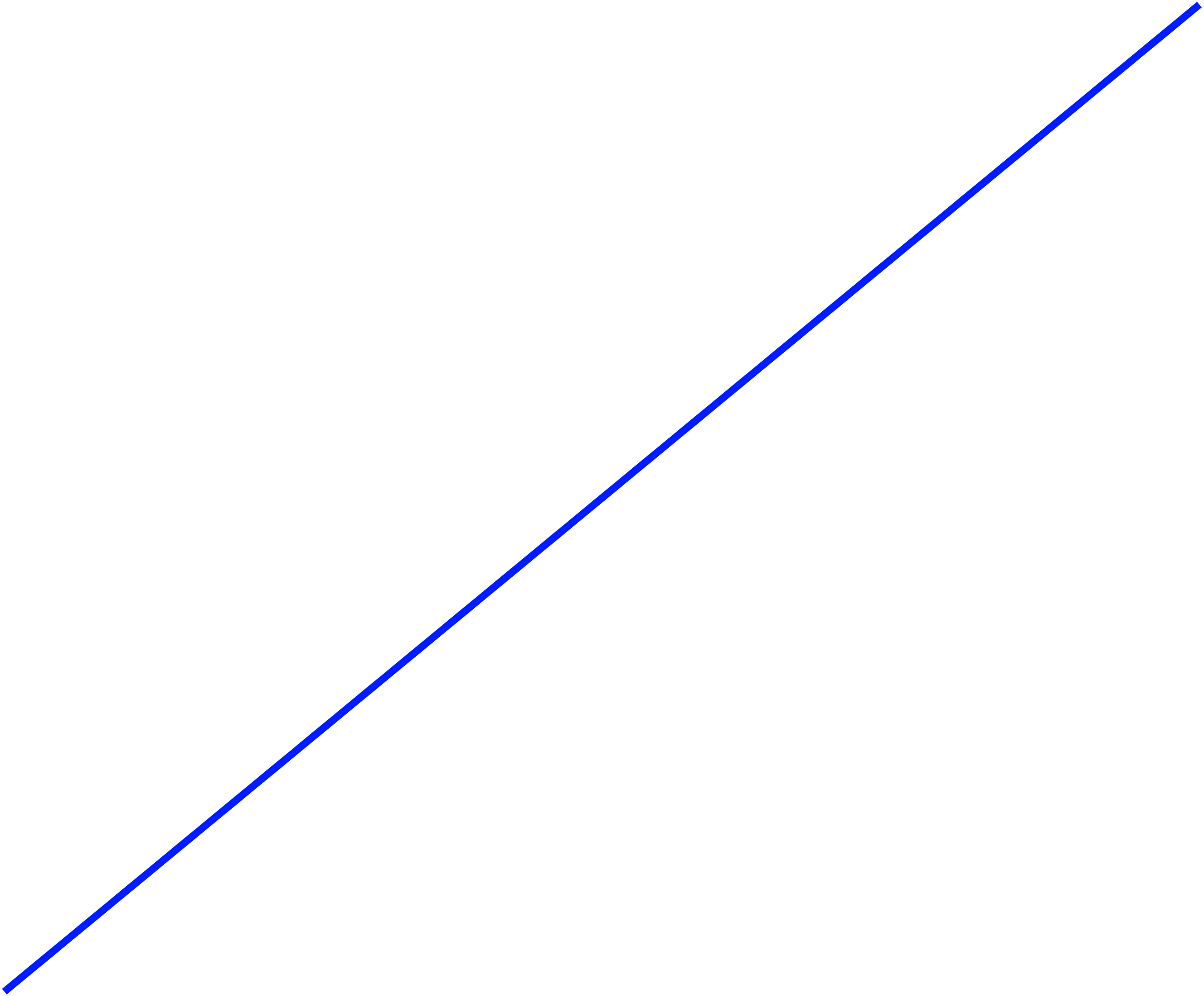


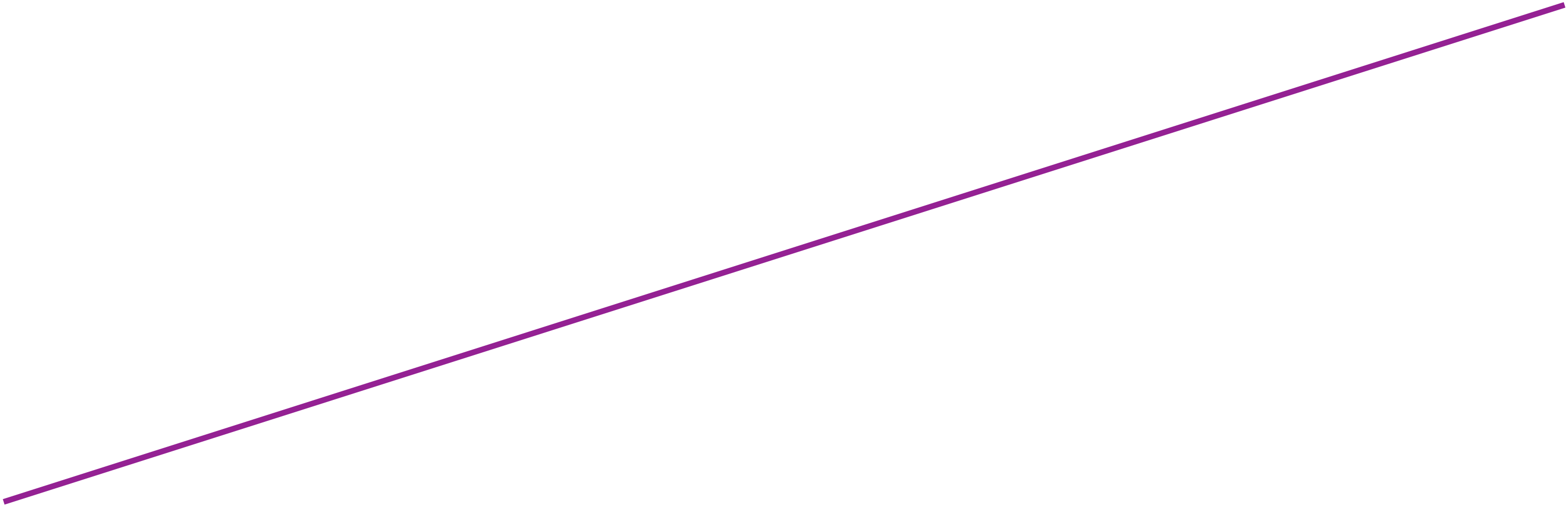
A

E

Total
Production









AE

=

Y*





Equilibrium output may
be "too high" with
rampant inflation

Potential
GDP



Zero Unemployment
No excess capacity



Economy is trying
to produce **beyond**
capacity

Working at full capacity,
equipment breaks down
more often: costs rise

Firms hiring workers who
already have a job (Labor
shortages): Labor costs rise



Rising costs = rising prices

inflation

