

AE



A

E

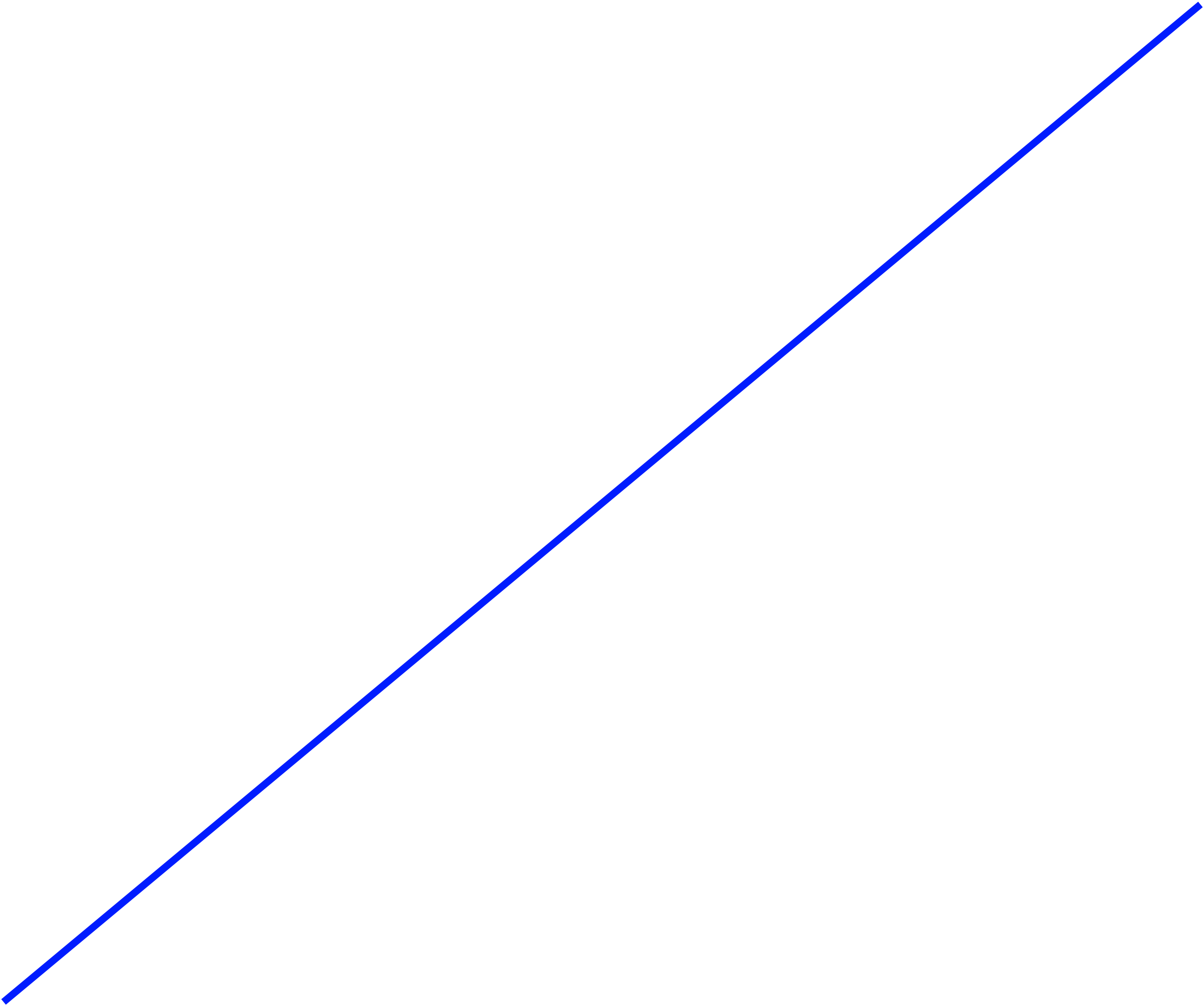
Total
Production

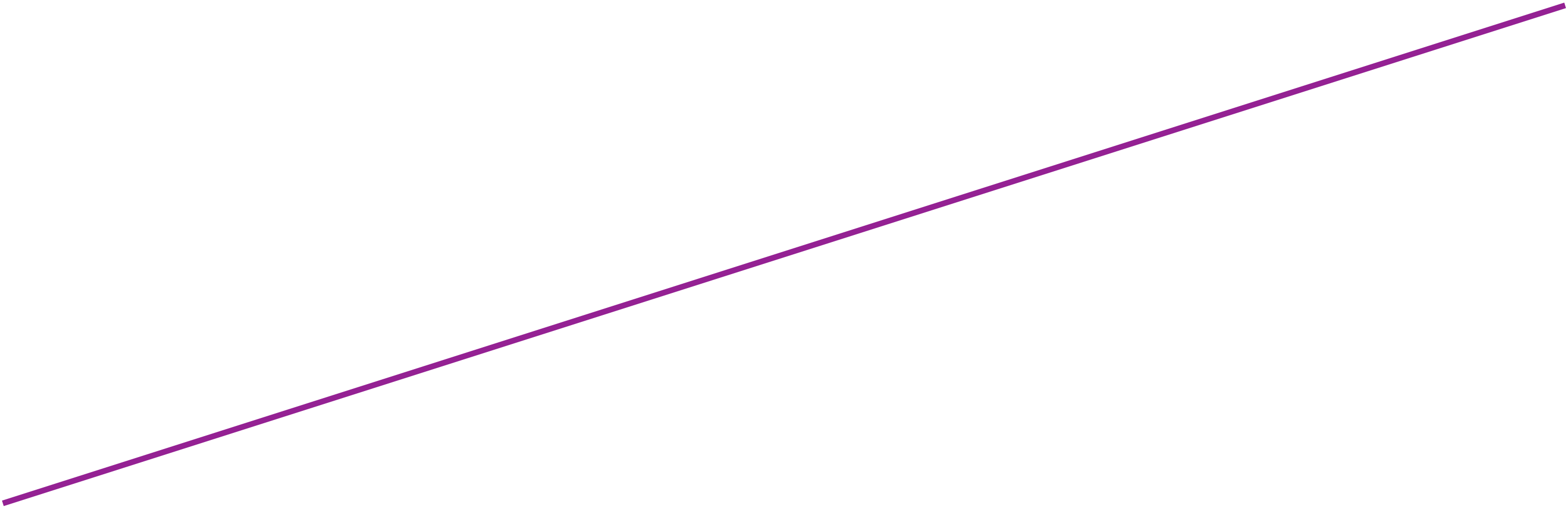
Inventories

Decrease

Inventories
Increase







Total Production (Y^*)

AE

=

Y*



AE(above)

Y(Production)

AE(below)

Production Y (higher)



Where the two lines cross:

The distance to the 45° line (production) is the same as the distance to the AE line (total sold):



No change in
inventories



$AE = Y^*$ We

sold exactly what we
produced

$AE > Y$ We

sold **more** than we
produced



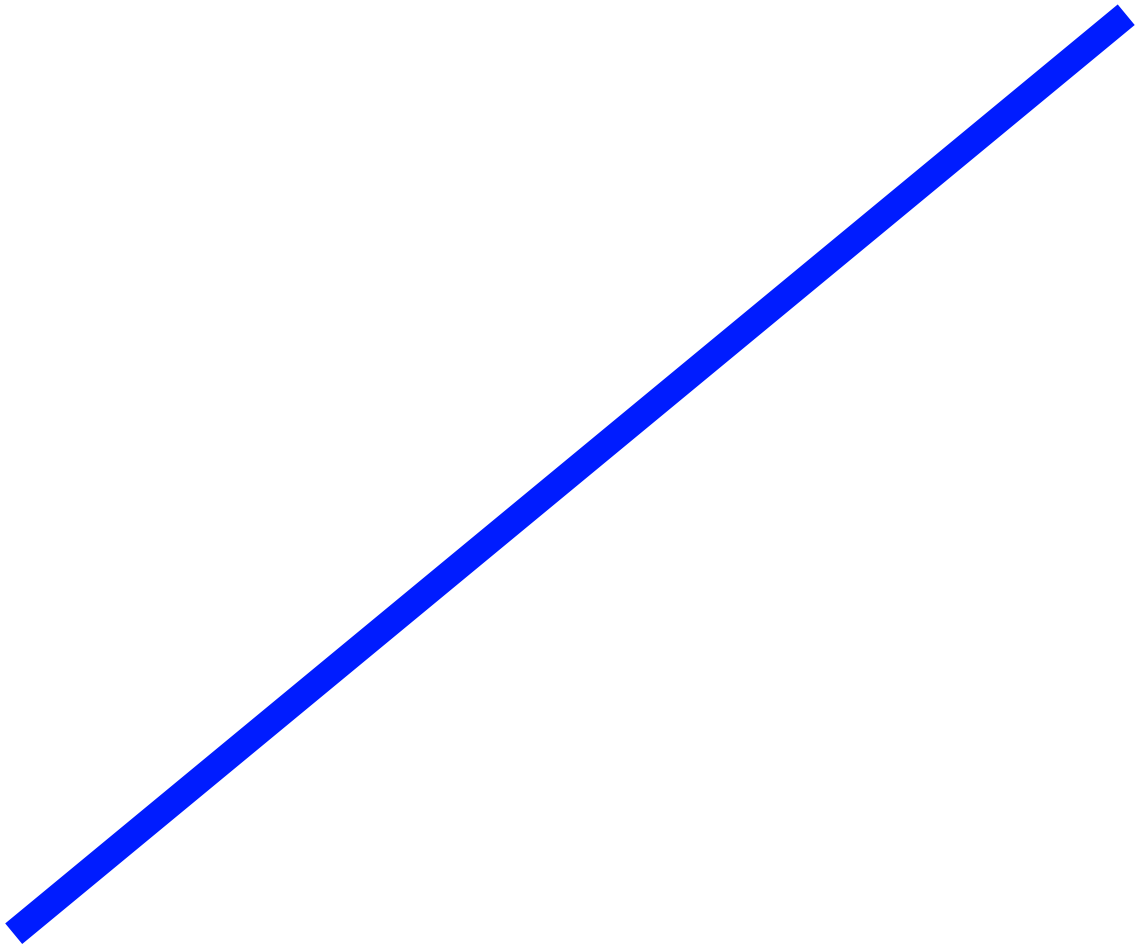
$Y > AE$ We


produced **more** than

we sold

For any output level below Y^*

For any output level above Y^*





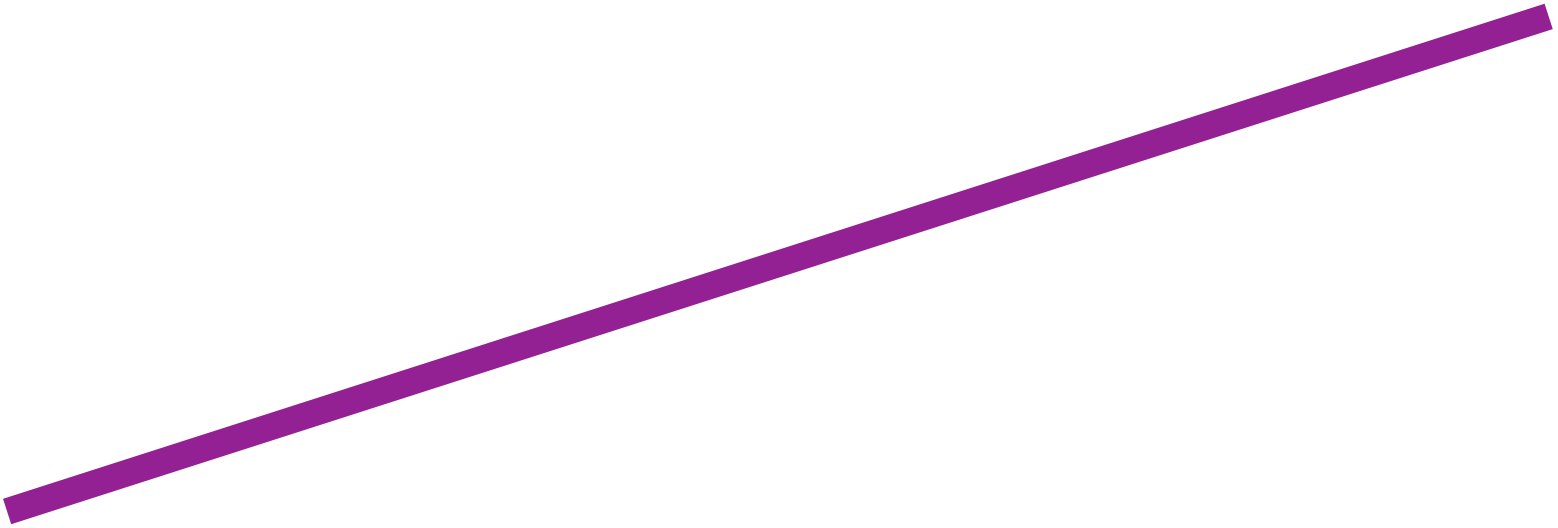
$Y - AE = \text{increase}$
in inventories



We sold goods that
were in inventory:
inventories **drop**



We could not sell all
we produced:
Inventories **increase**



$Y - AE = \text{drop}$
in inventories



