



AE



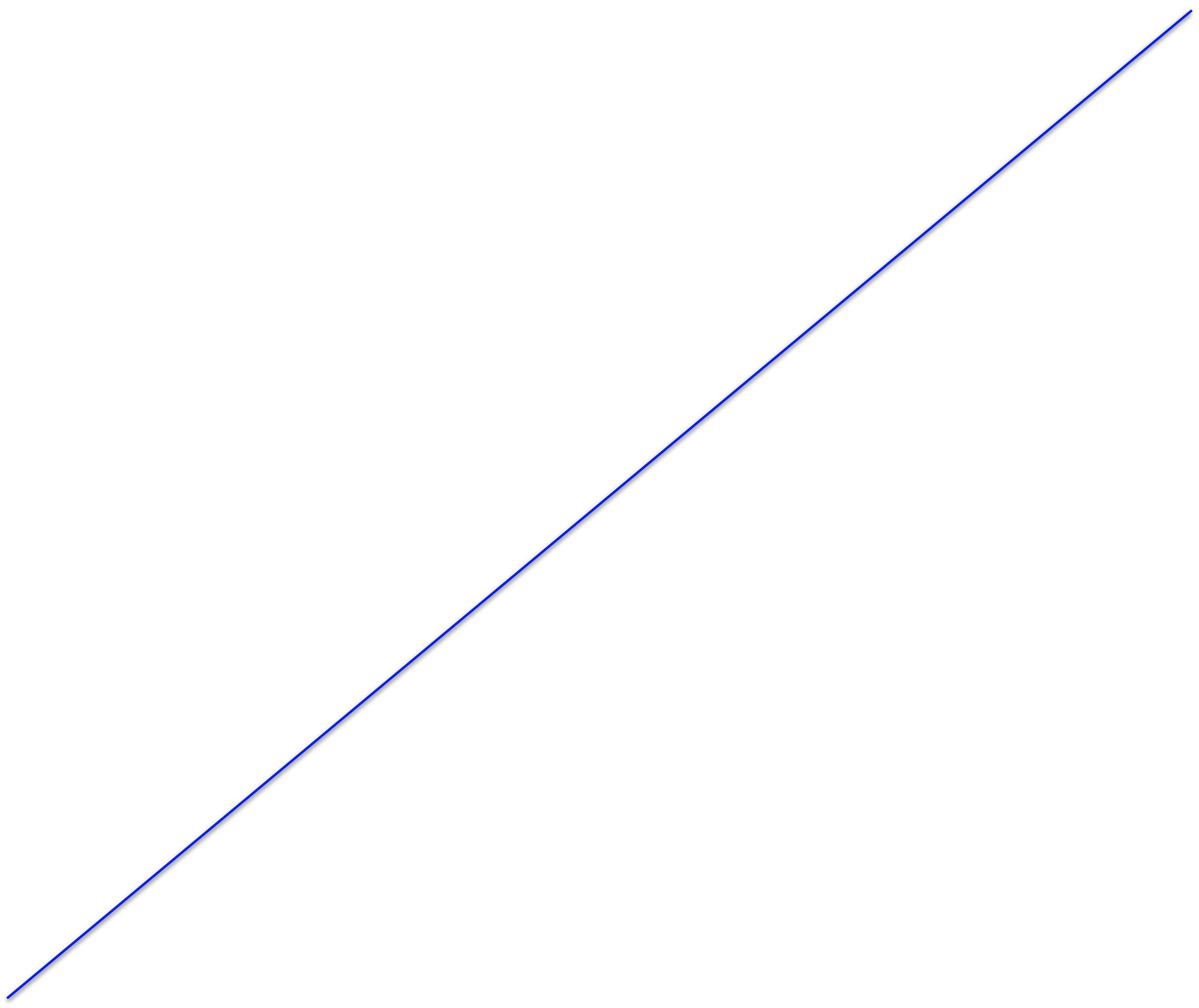


A

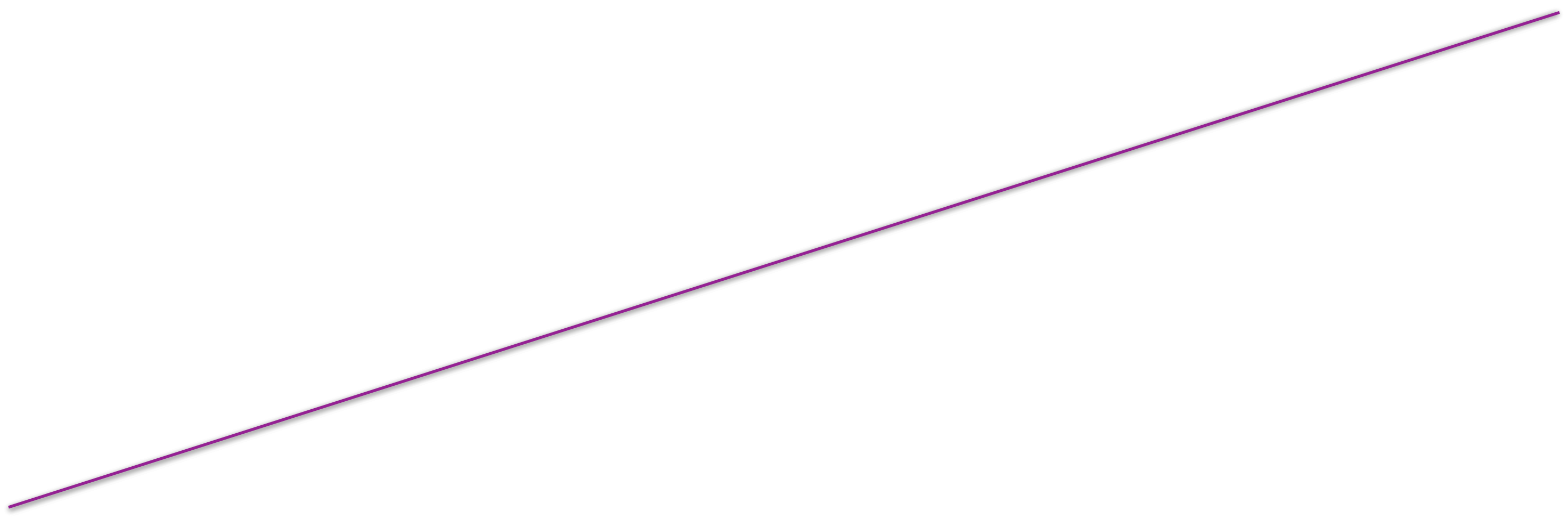
E

Total  
Production









Equilibrium Y

AE

=

Y\*



AE(above)

$Y(\text{Production})$

AE(below)

Production Y (higher)





For any output level  
below equilibrium

For any output level  
above equilibrium



Inventories  
increase

Inventories  
drop



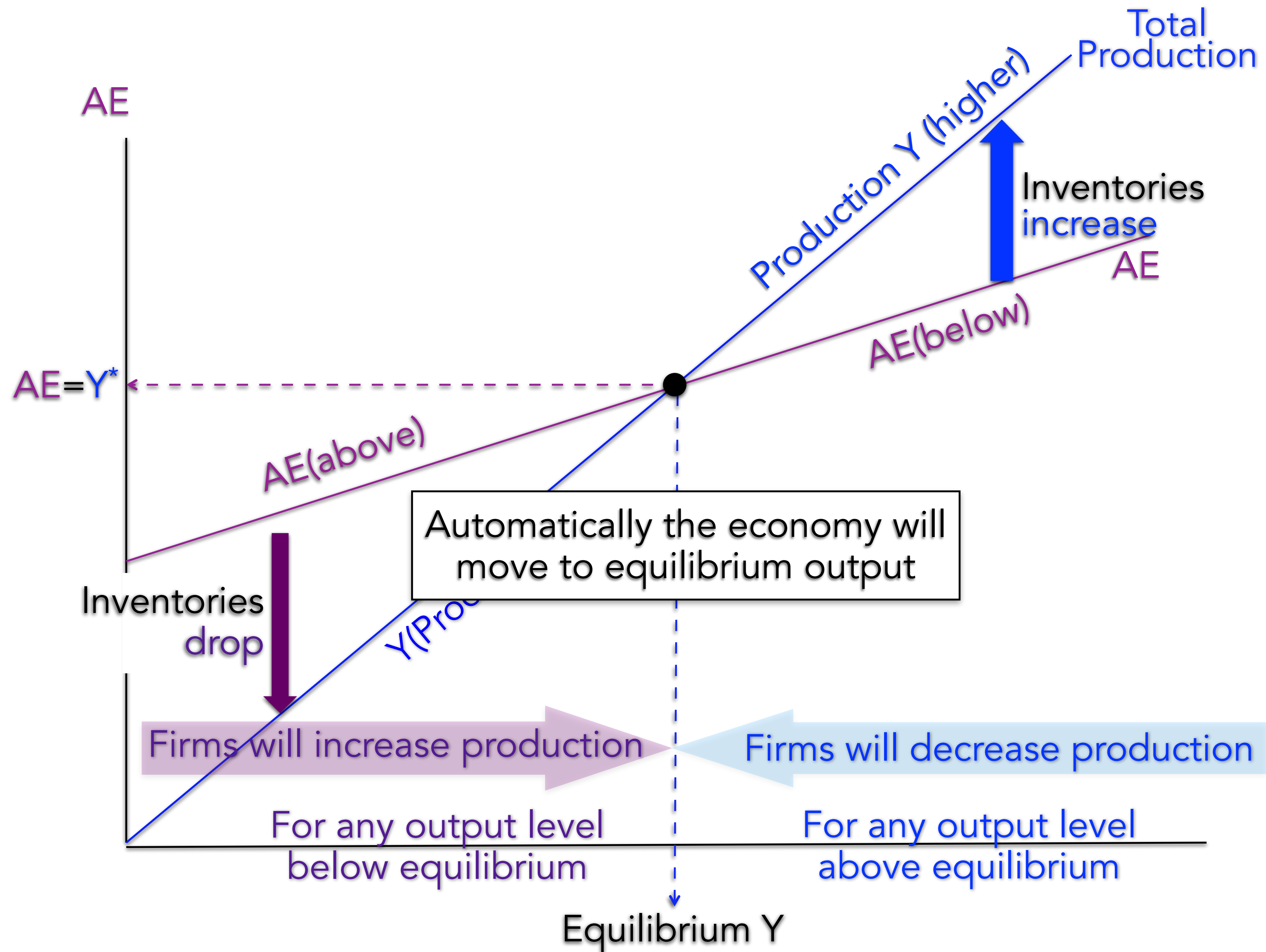


Firms will decrease production

Firms will increase production

Automatically the economy will  
move to equilibrium output





An Example with numbers....