



AE



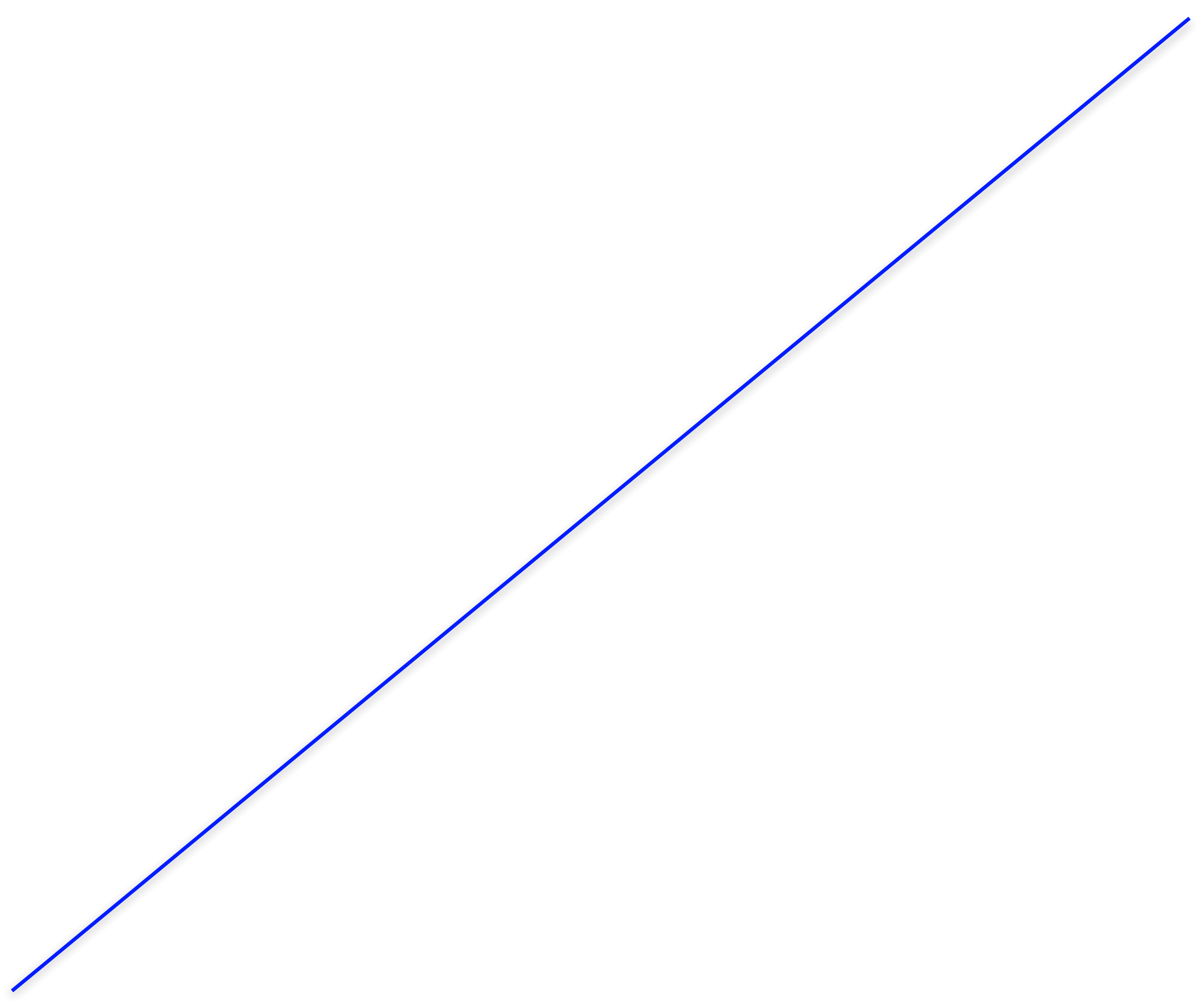


A

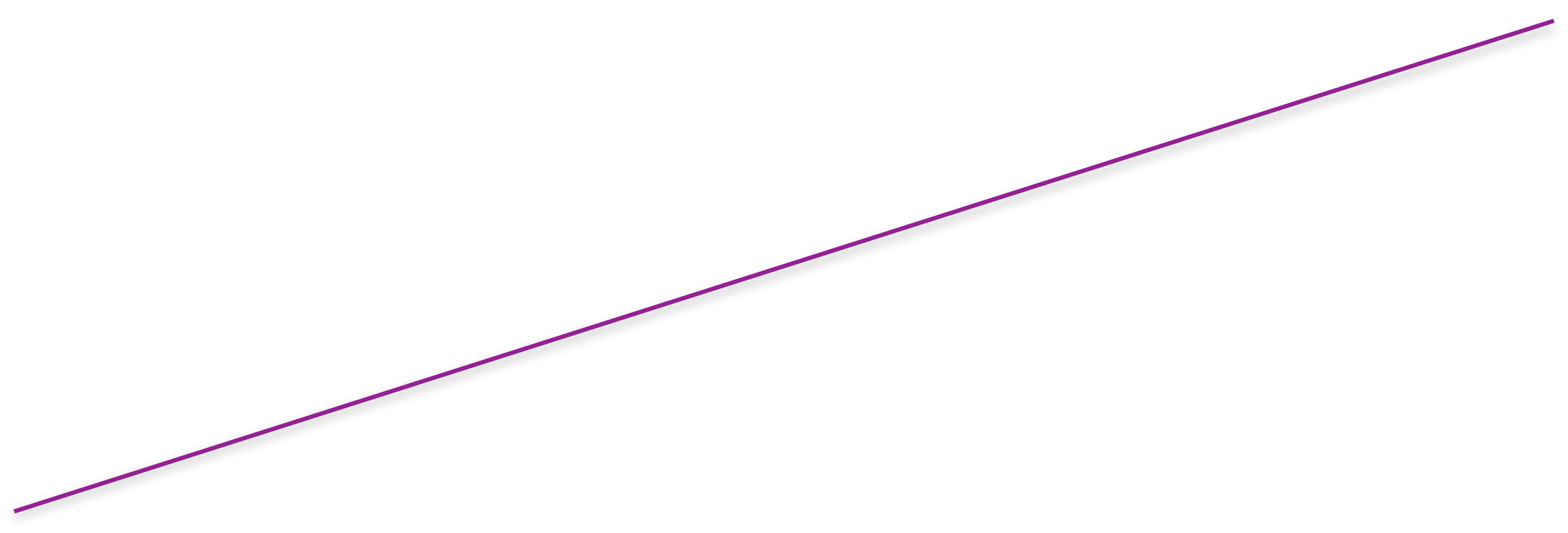
E

Total  
Production











AE

=

Y\*





Where the two lines cross: Total  
Production is equal to Total  
Sales AE

Firms will continue to produce  $Y^*$  quarter after quarter...

Equilibrium output may be "too low" with massive unemployment

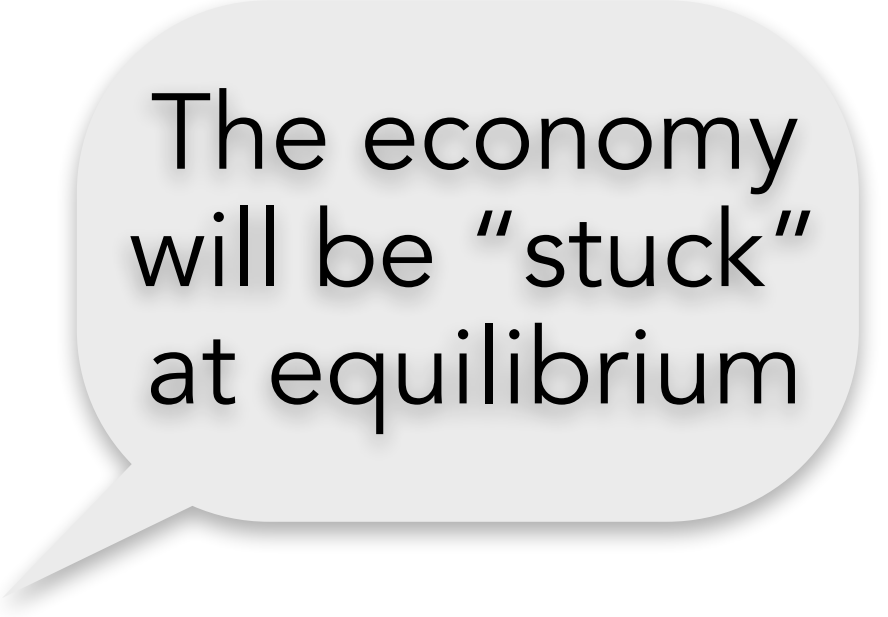


Equilibrium output may be "too high" with rampant inflation

Equilibrium is **not** a happy place  
where we want to be

Equilibrium output is what the economy will end up producing regardless of whether it is "too high (inflation)" or "too low (unemployment)"

When firms  
produce  $Y^*$  the  
economy is at  
equilibrium

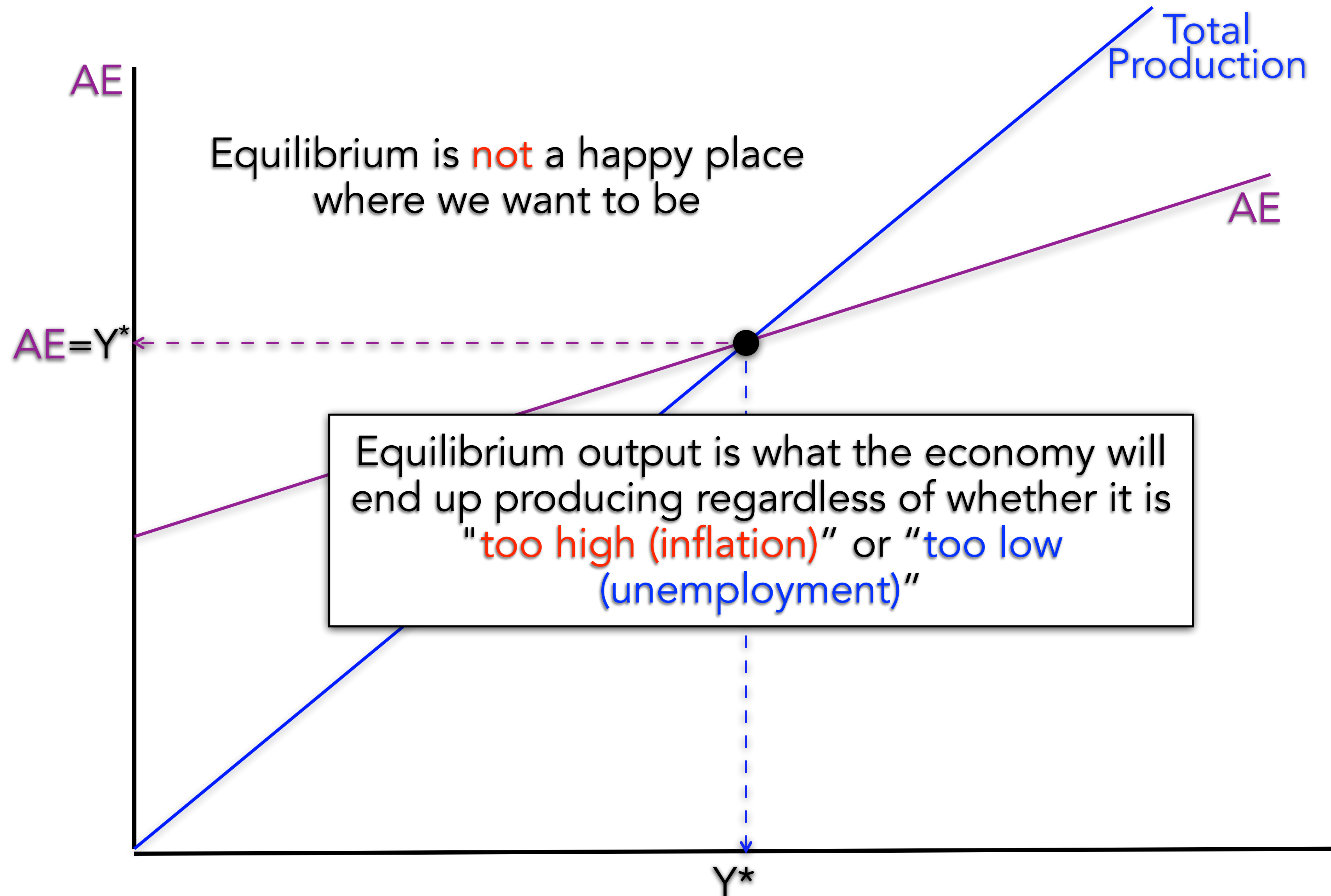


The economy  
will be "stuck"  
at equilibrium



No change in  
inventories

Equilibrium output may be “too low” with massive unemployment



Equilibrium output may be “too high” with rampant inflation

