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AD

AS

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Aggregate Demand  
when prices =  $P_o$

Determining Prices and Output: **Aggregate Supply** and **Aggregate Demand**

Price Level  
(CPI)



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Real GDP



At this price level

Aggregate Supply < Aggregate Demand

Production (AS) < Total Sales (AD)

Inventories fall

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Aggregate Supply  
when prices =  $P_o$

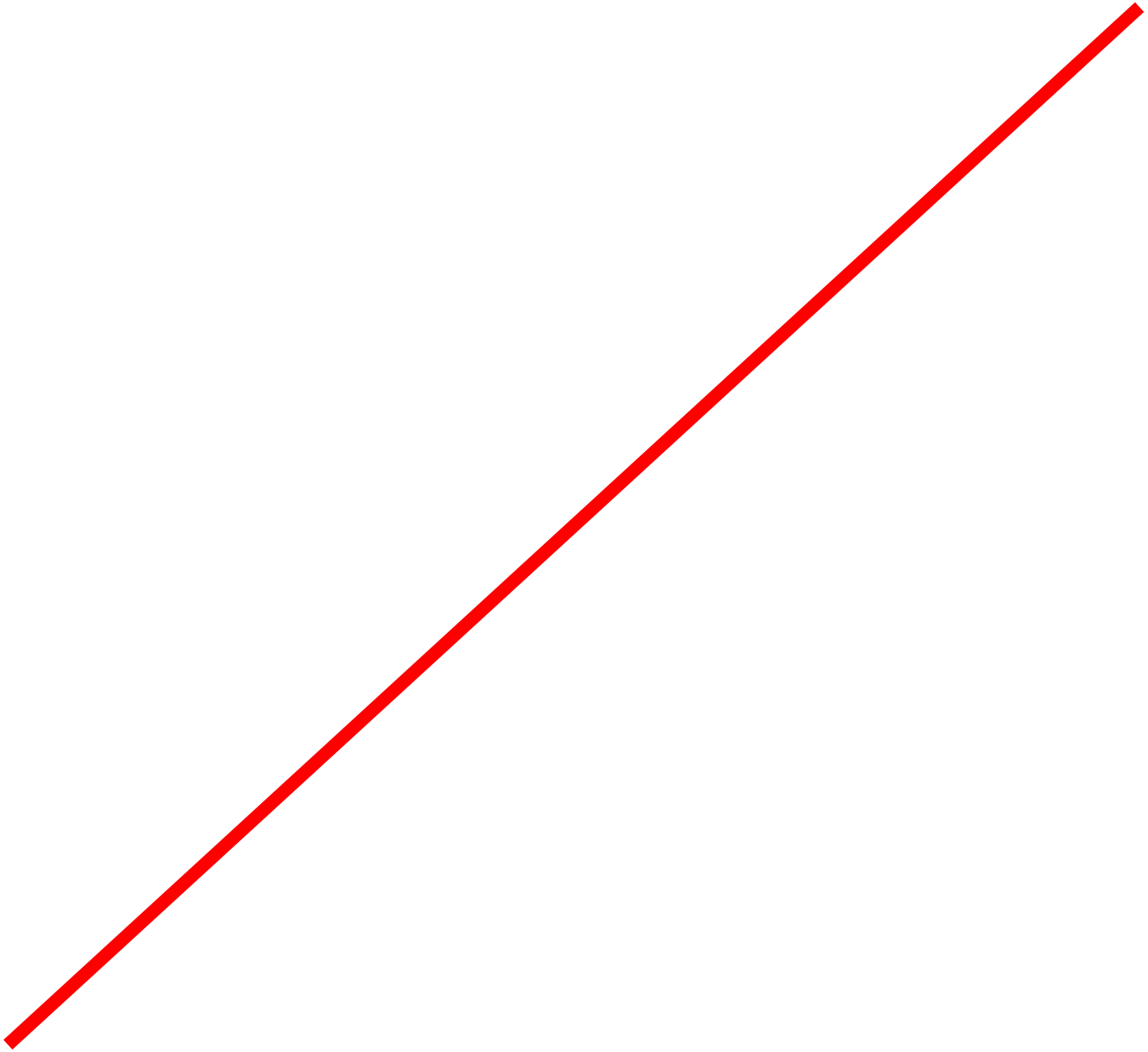


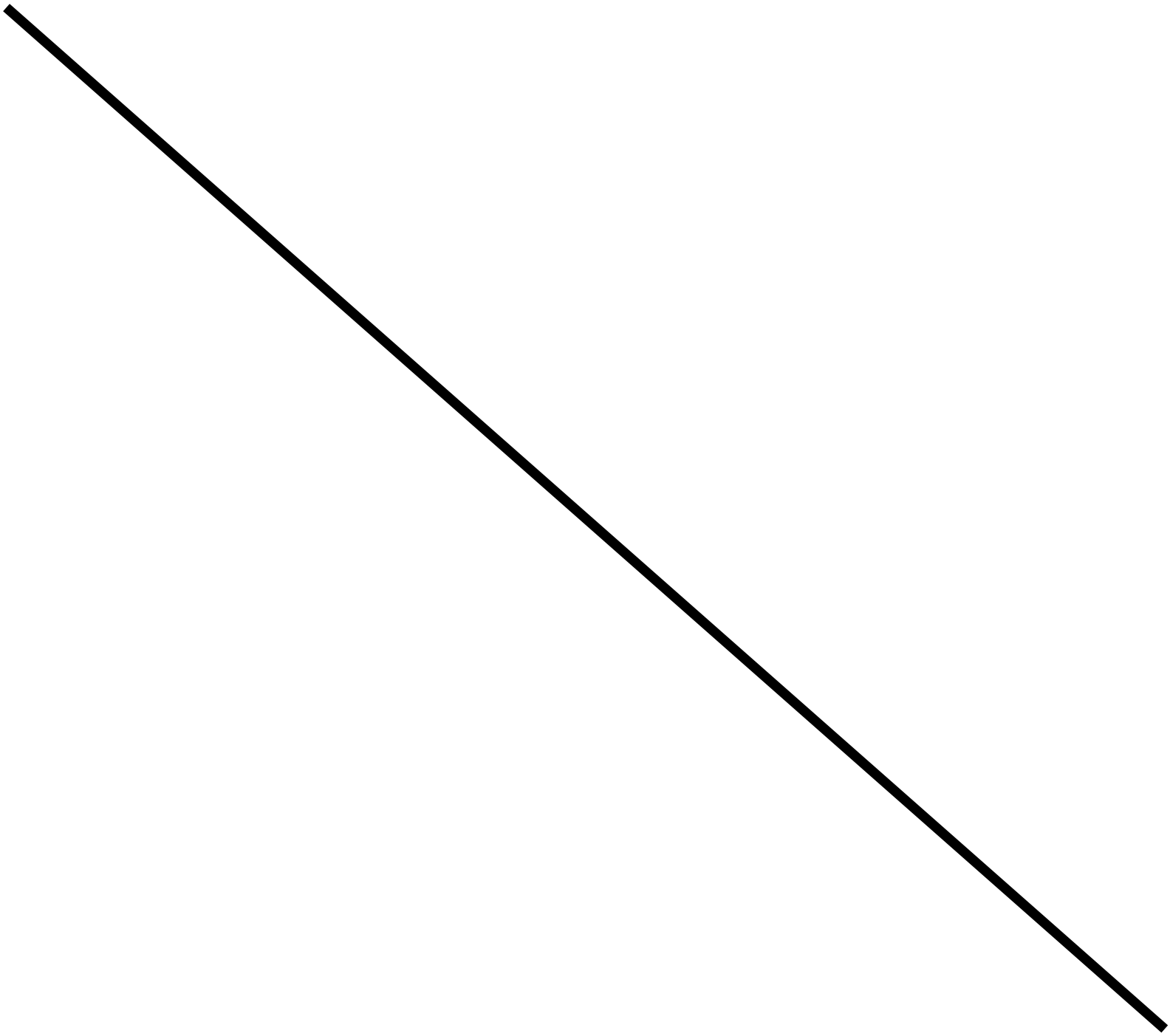
Firms increase

production and prices

As prices rise

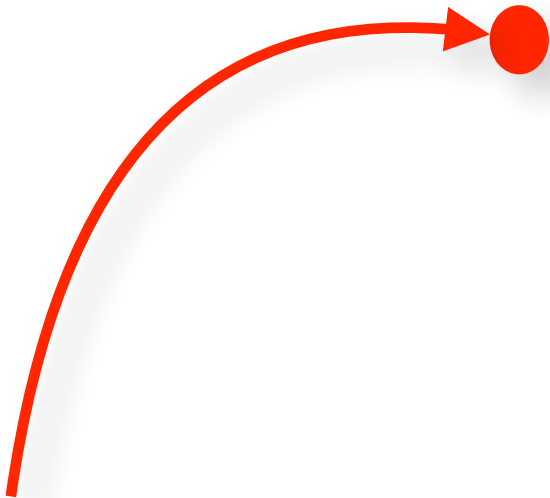
AD decrease

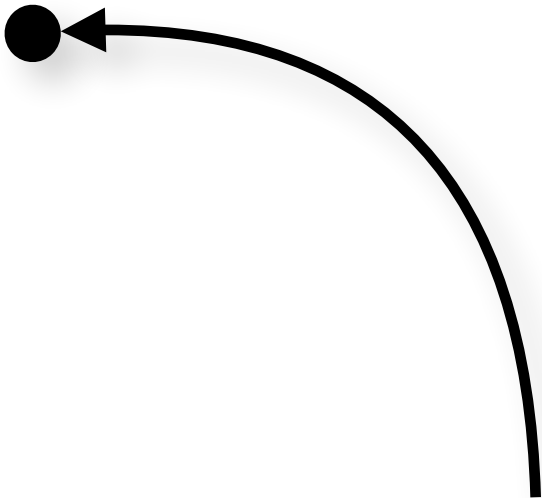














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Once prices rise to this level

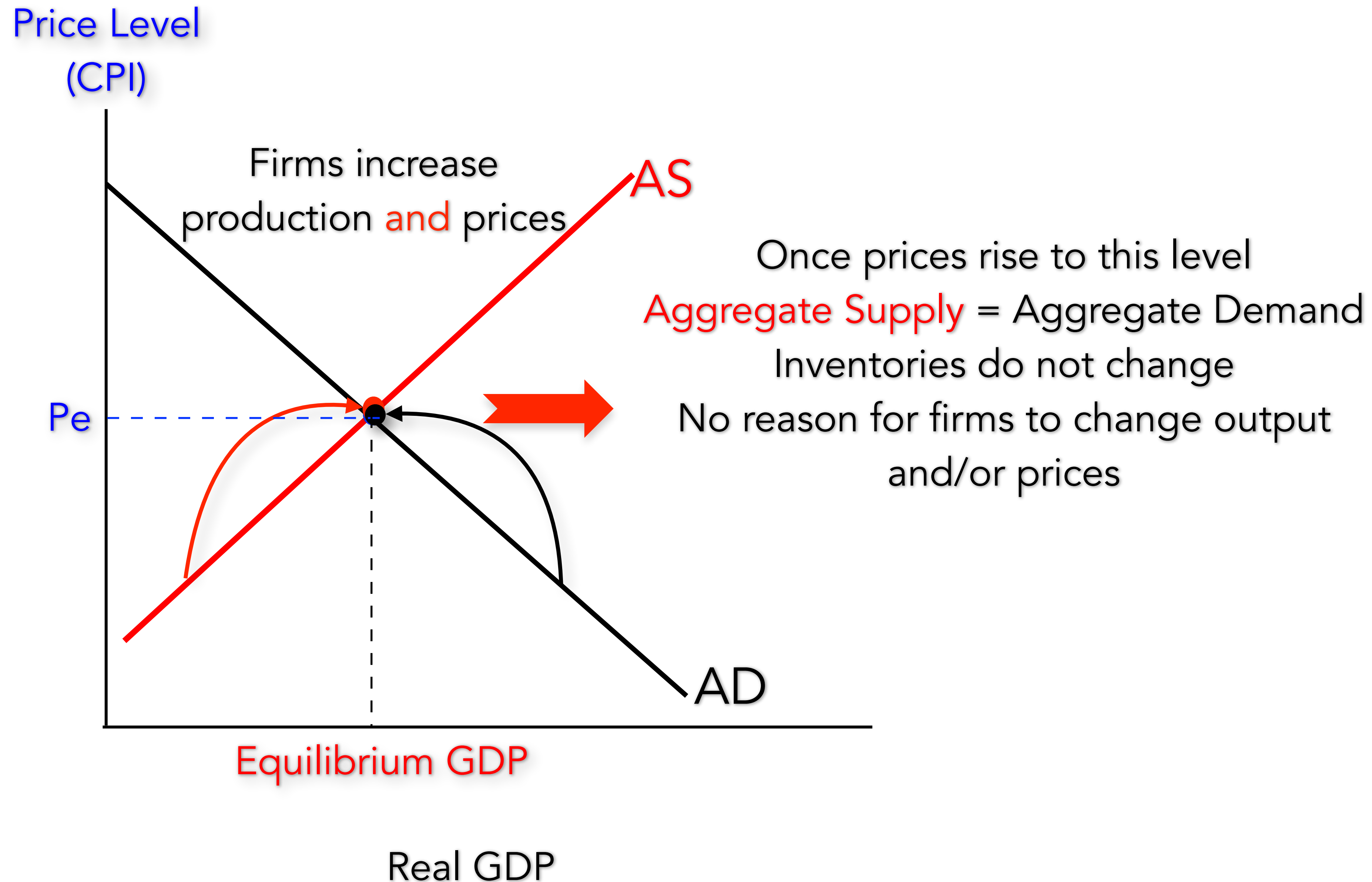
**Aggregate Supply** = Aggregate Demand

Inventories do not change

No reason for firms to change output  
and/or prices

# Equilibrium GDP

# Determining Prices and Output: **Aggregate Supply** and **Aggregate Demand**





# Determining Prices and Output: Equilibrium

