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Goods and Services Demanded

AD

AS



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 rise

# Aggregate Supply when prices = $P_o$

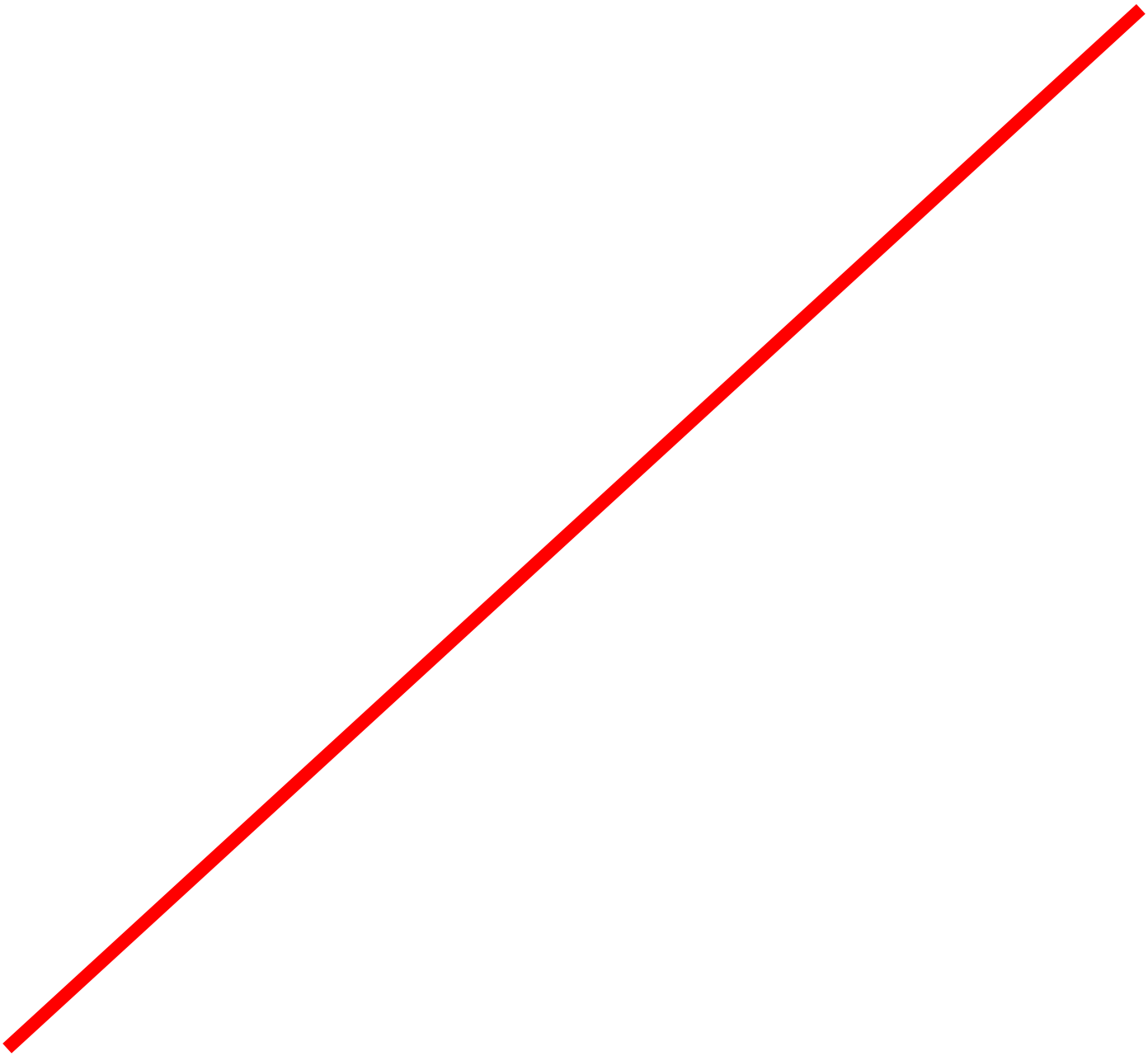


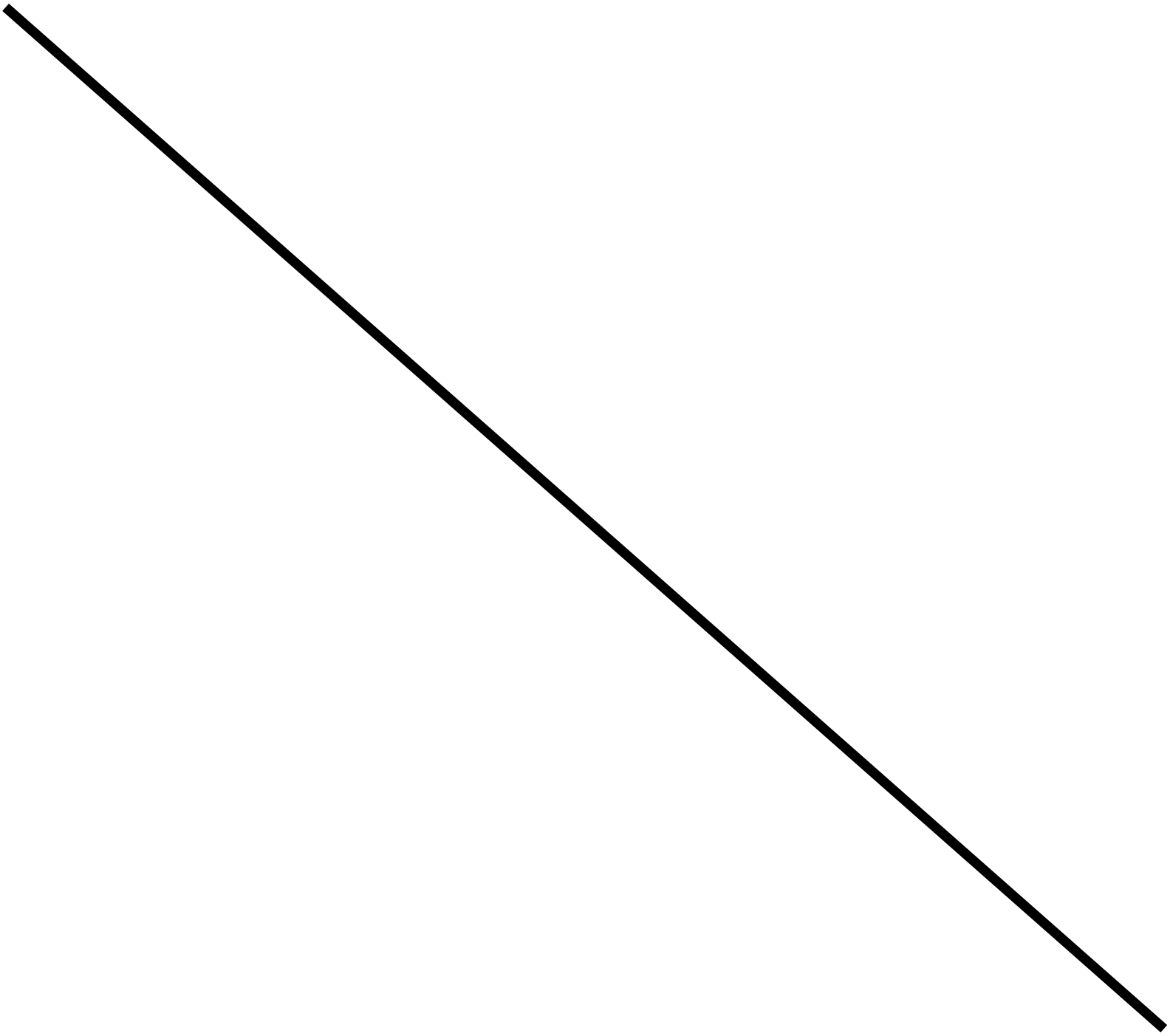
Firms decrease  
production and prices



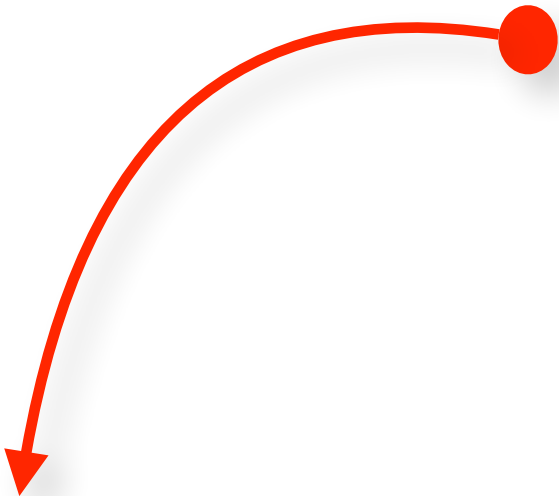
As prices drop

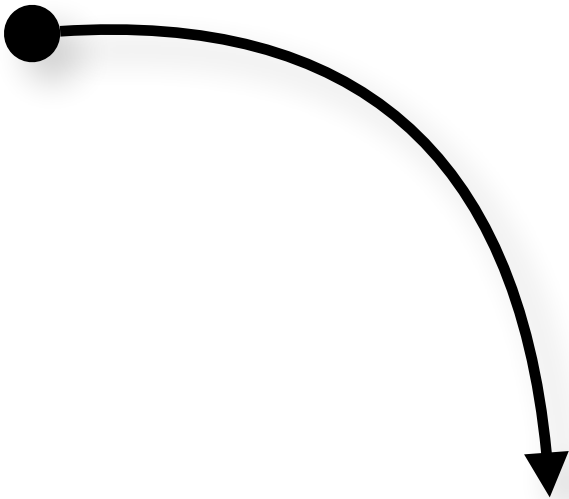
AD increase











Once prices drop to this level

**Aggregate Supply** = Aggregate Demand

Inventories do not change

No reason for firms to change output  
and/or prices

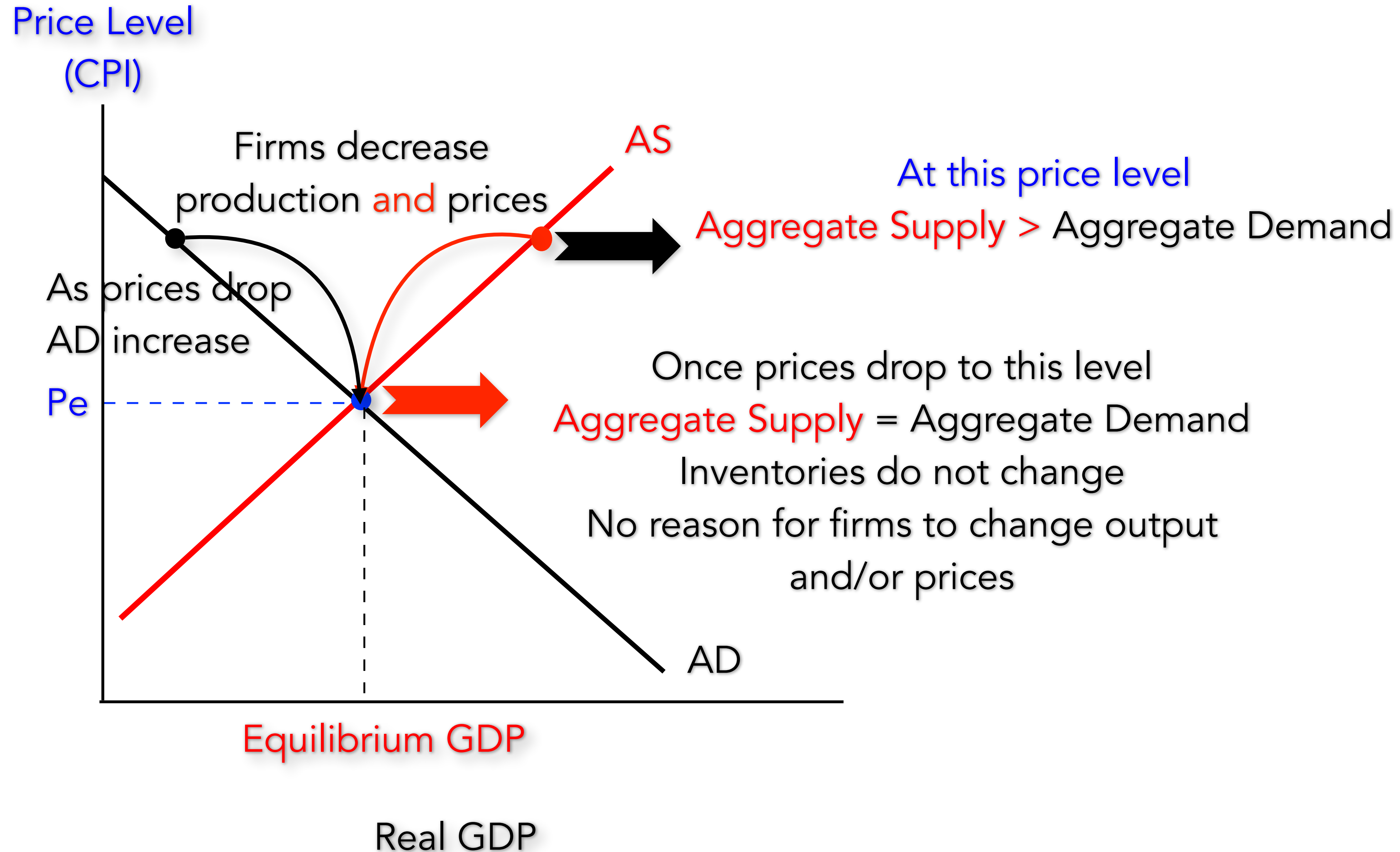






Equilibrium GDP

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



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

Price Level  
(CPI)



Real GDP