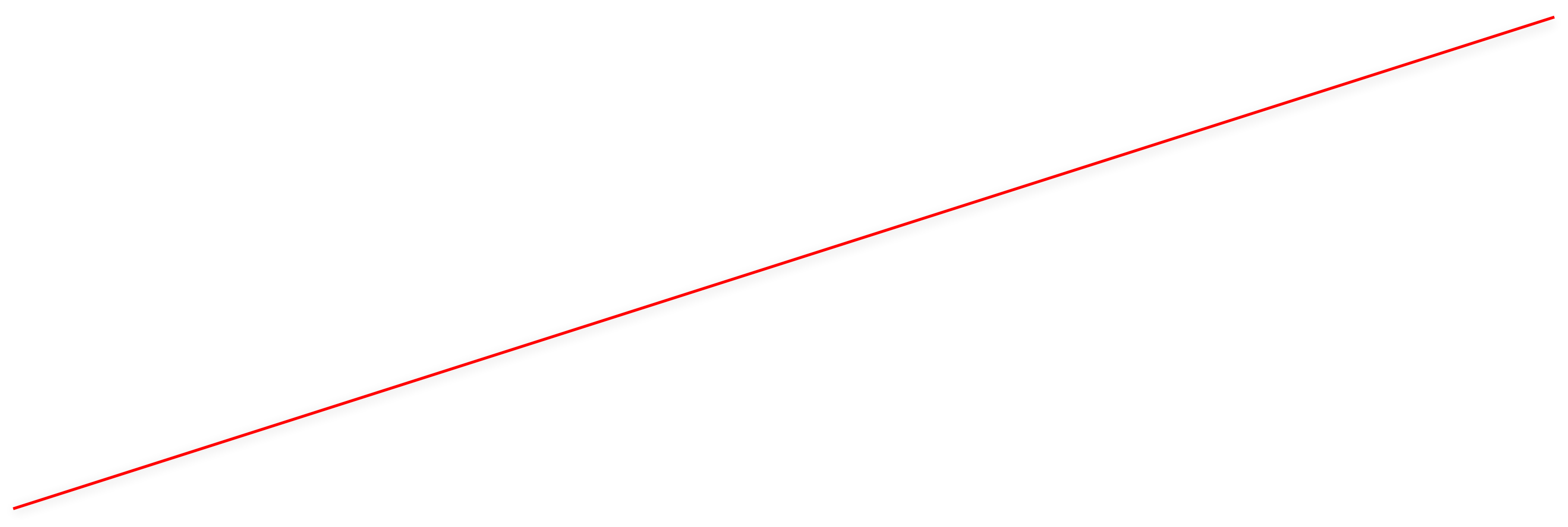


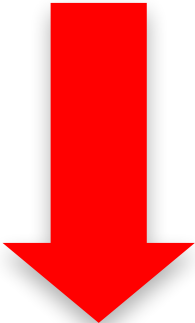
A

E



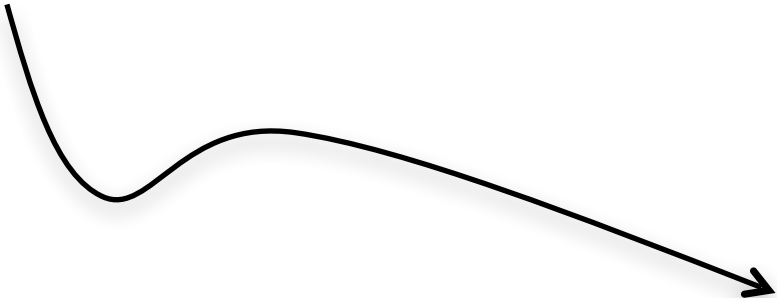


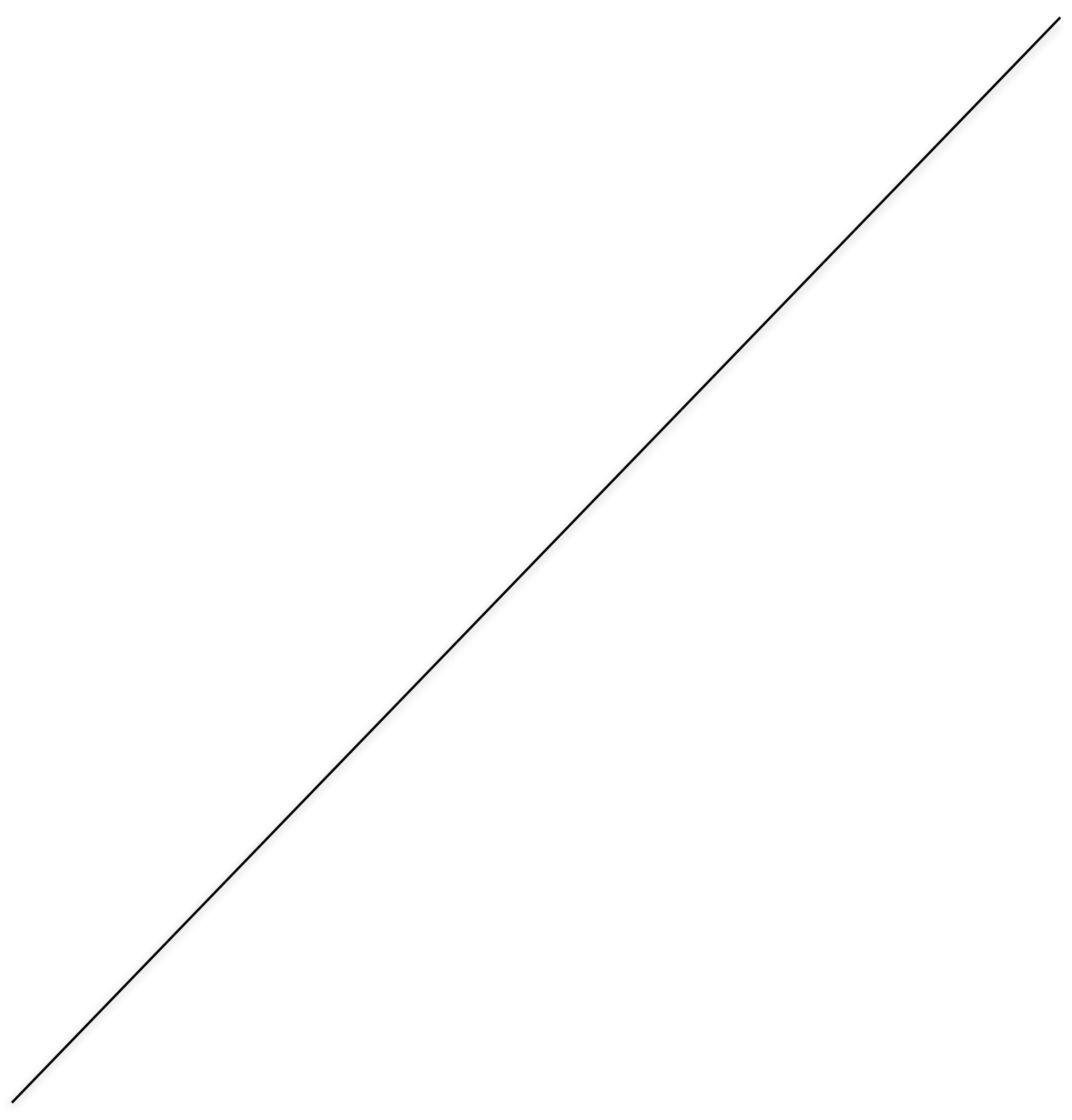




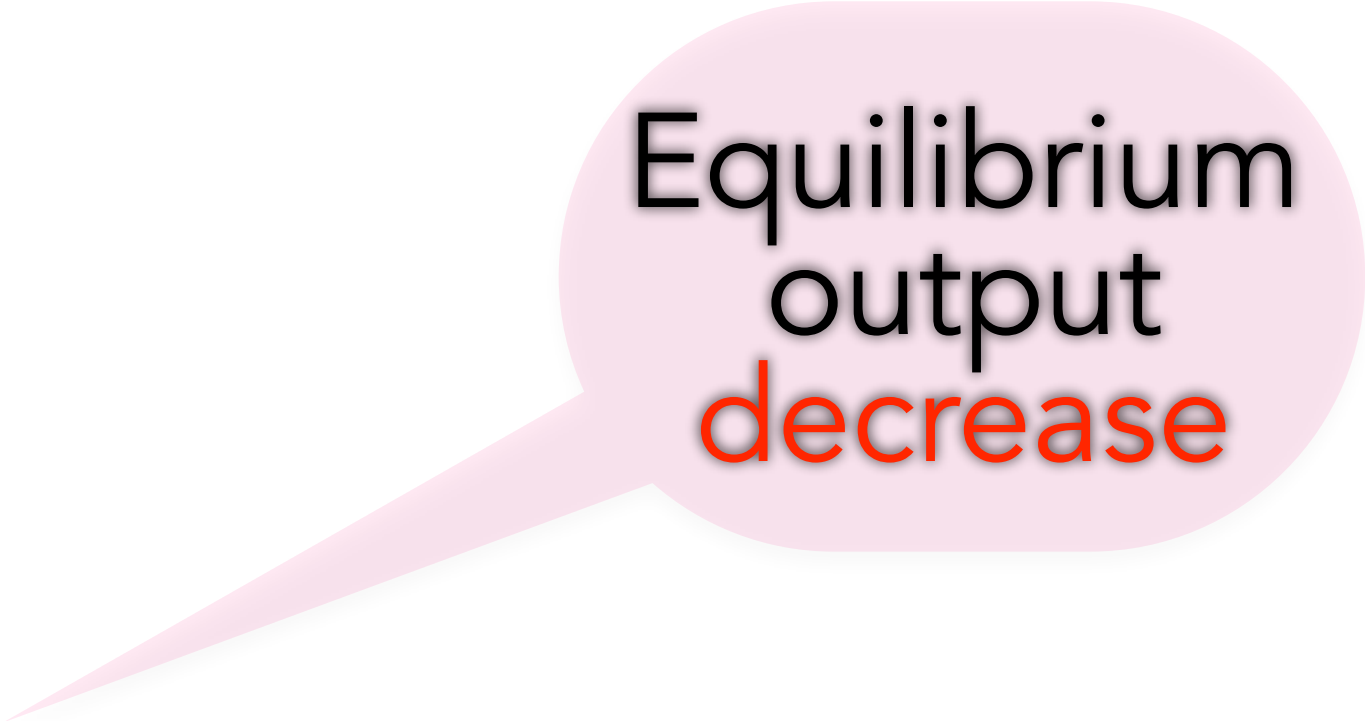
Lower Y^*

Equilibrium





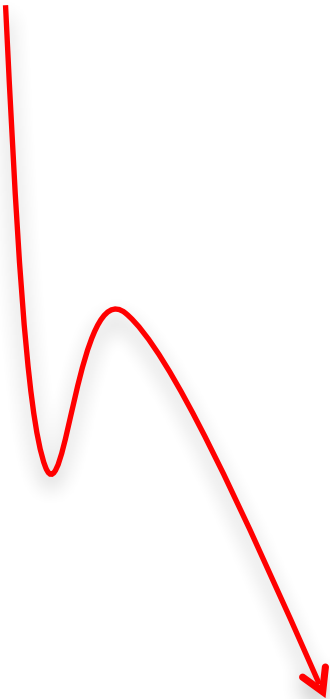




Equilibrium
output
decrease







AE0

GDP/Income



Unemployment
increase





Total

Production

Total
Purchases



Inventories
rise

AE₁

Y



O

AE

line shifts
down

NewEquilibrium



Firms decrease
output and
employment





























V



















V































N



































2

























W





















2















P

















































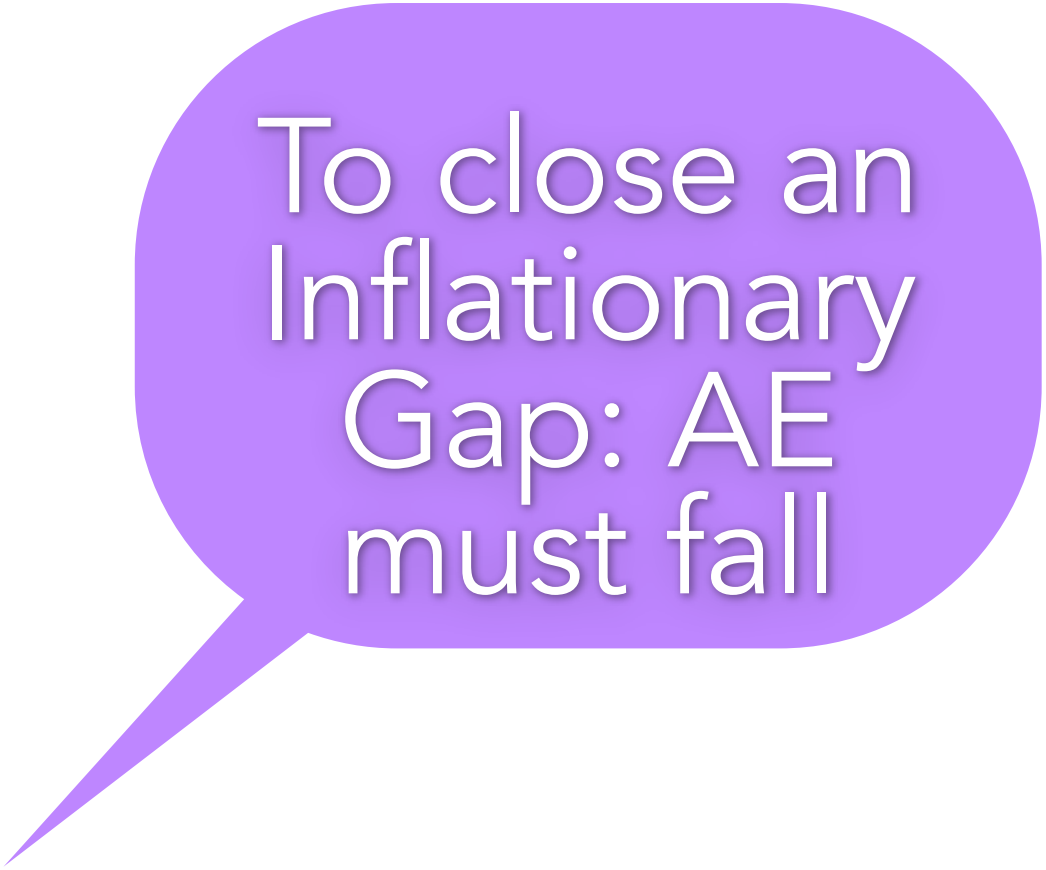




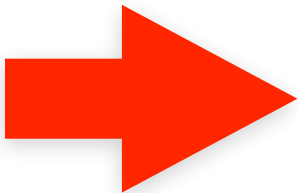








To close an
Inflationary
Gap: AE
must fall



Autonomous
Consumption
decrease

A decrease in:

Investment

Government Spending

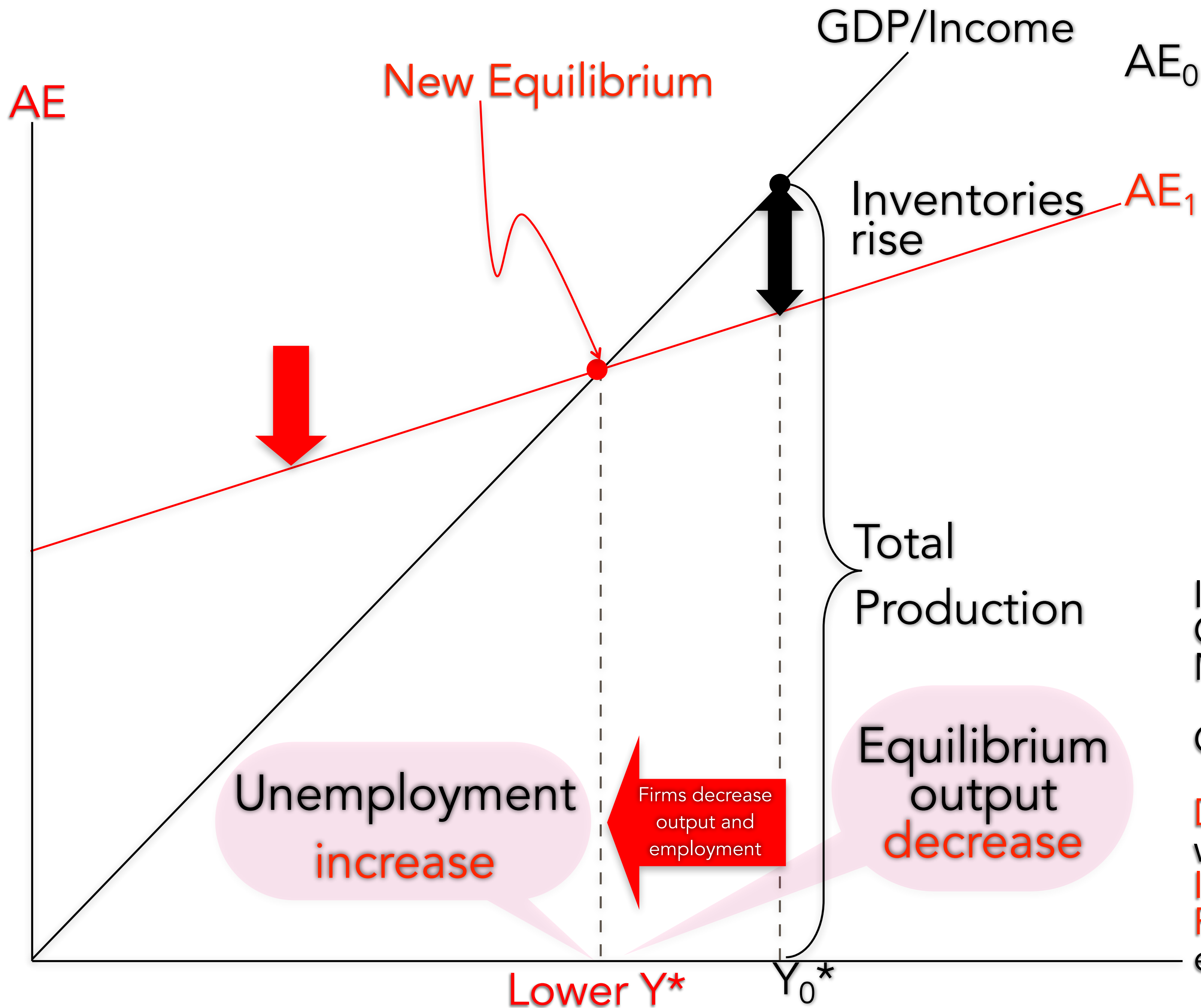
Net Exports

Or...

Decrease in Consumer
wealth

Increase in CPI

Pessimistic consumer
expectations



To close an Inflationary Gap: AE must fall

A decrease in:
Investment
Government Spending
Net Exports

Or...

Decrease in Consumer wealth
Increase in CPI
Pessimistic consumer expectations

Autonomous Consumption decrease

