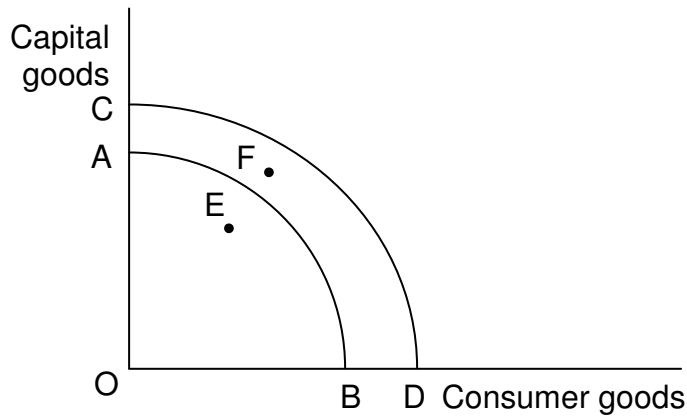
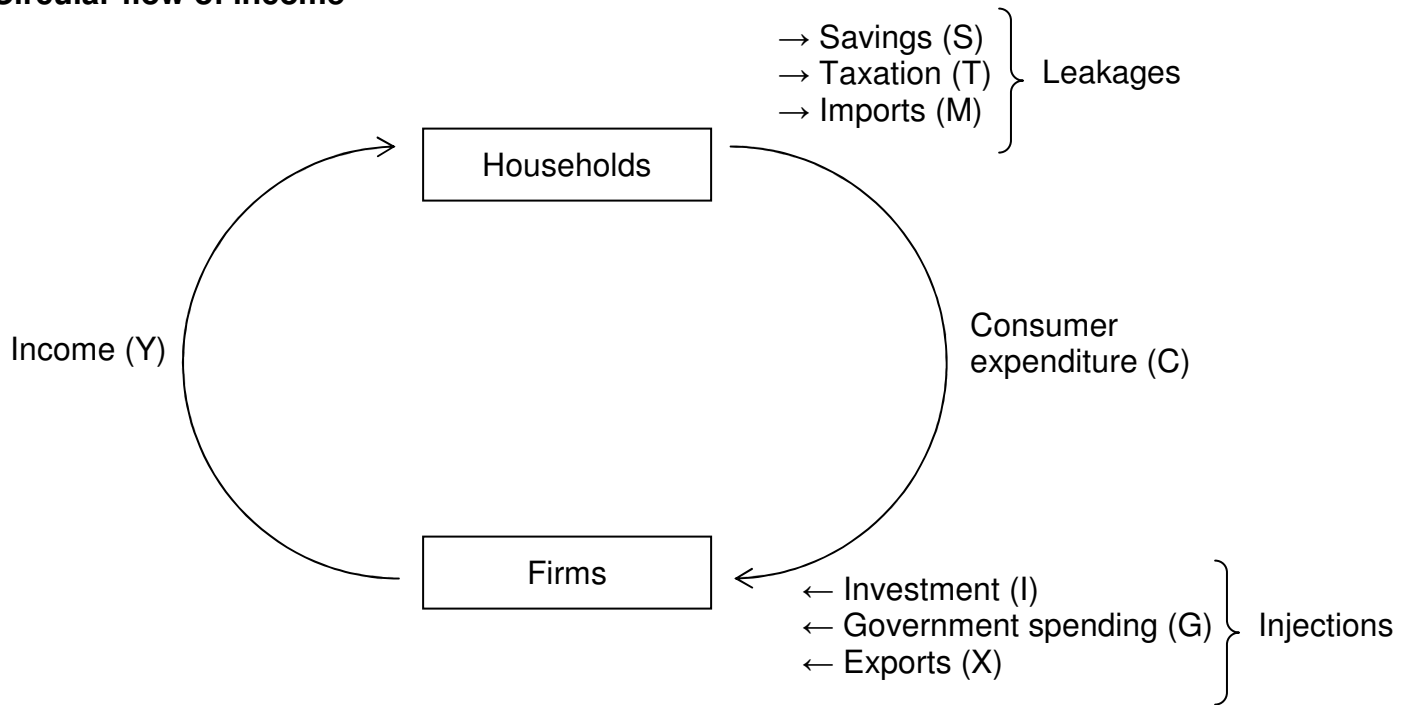


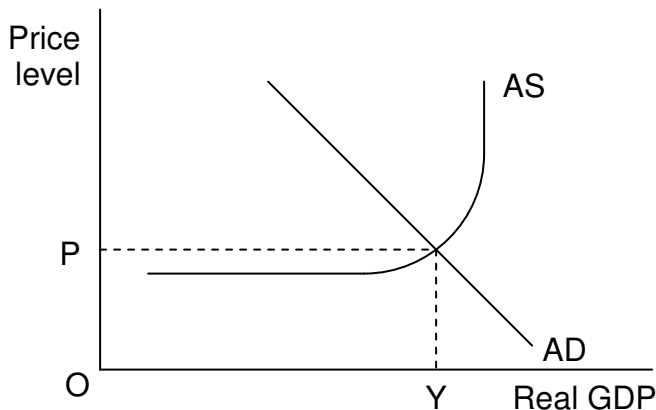
# Unit 3: National and international economy diagrams

## Circular flow of income



AB → CD = potential growth  
 E → F = actual growth  
 F → CD = output gap

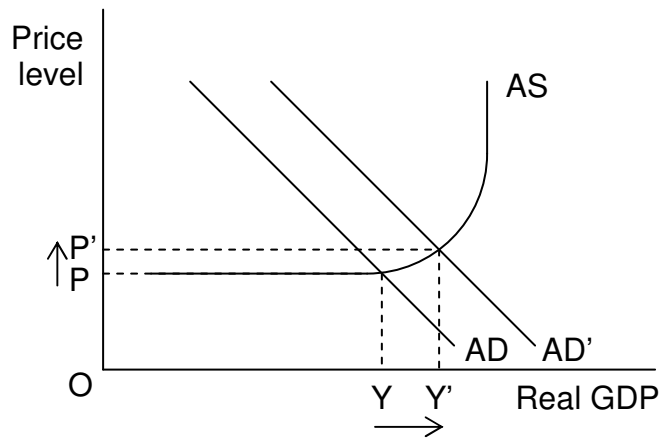
## Macroeconomic equilibrium



Equilibrium occurs when  $AS = AD$   
 $Y = C + I + G + X - M$

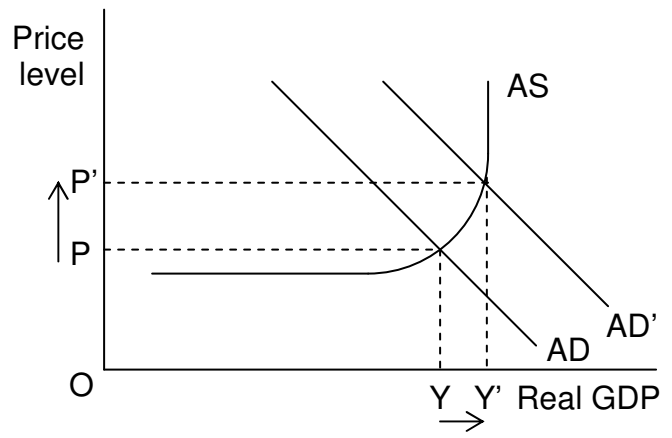
## Effects of a shift of AD

(a) Economy with spare capacity



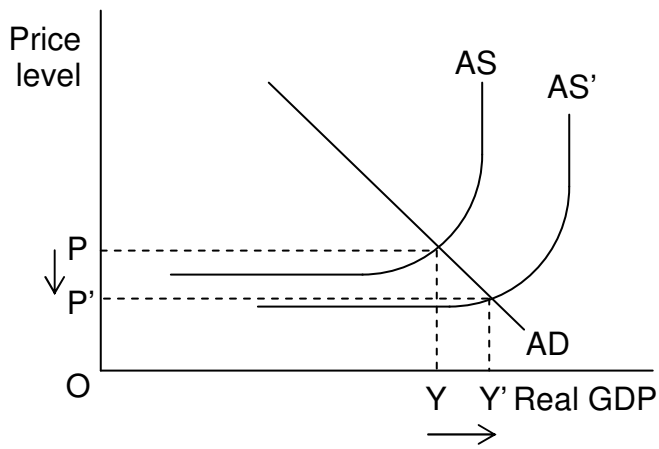
- Large  $\uparrow$  in output
- Small  $\uparrow$  in inflation

(b) Economy has very little spare capacity



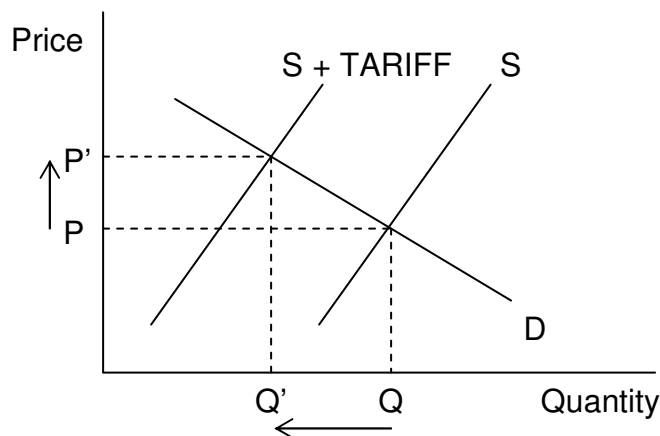
- Small  $\uparrow$  in output
- Large  $\uparrow$  in inflation

## Effects of a shift in AS



- $\uparrow$  in output
- $\downarrow$  in inflation

## Effect of a tariff



## Effect of a quota

