Price Level (*P*) $AS_0^{LR}(\overline{K}_0, \overline{F}_0, L_A, \overline{P}\overline{WB}_0)$ $I \downarrow$ $AS_0^{SR}(\overline{W}_0, \overline{P}\overline{W}\overline{B}_0)$ P_0 \boldsymbol{A} P_1 $AD_{0}(C_{0},I_{0},G_{0})$ Re cessionary $C AD_{1}(C_{0}, I_{1} < I_{0}, G_{0})$ P_2

Gap 🖊

 $Y_B(L_B < L_A)$ $Y_A^*(L_A) = Y_C^*(L_C = L_A)$

GNP (Y)

Figure 1-A Full Employment Equilibrium and Recession in the Aggregate Product Market: The Conventional Approach

Key $P_2 < P_1 < P_0$, and $w_1 < w_0$

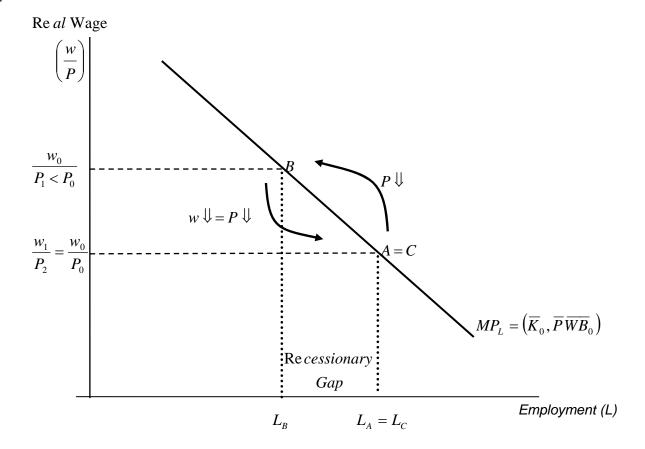


Figure 1-B Employment and Unemployment Effects of a Decline in Prices: The Conventional Approach

Key $P_2 < P_1 < P_0$, and $w_1 < w_0$