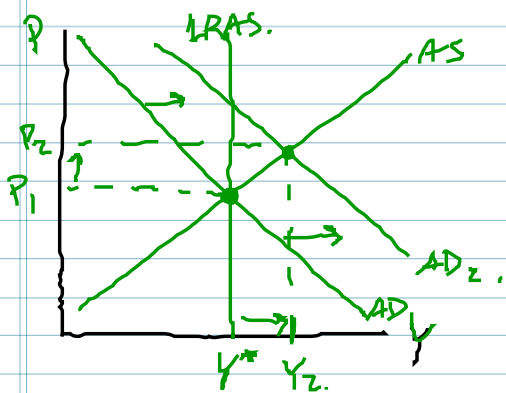


AS & AD: Boost in Consumer Confidence.

Example: Suppose the economy is operating at its potential, when there is a boost in consumer confidence. \Rightarrow increase in demand for consumption.

Mkt for Final Goods and Services



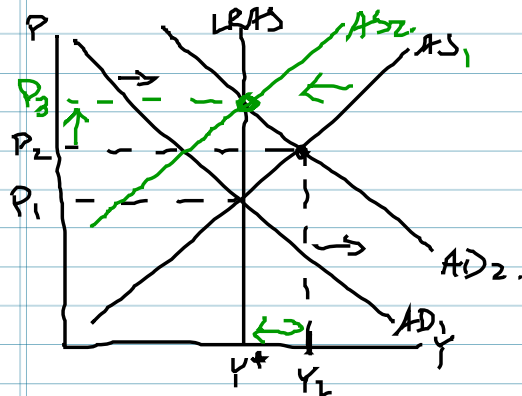
$$AD = C + I + G + X - M.$$

$\uparrow C \Rightarrow \uparrow AD$ (right)

- GDP increases beyond potential GDP, (inflationary gap)
- Price Level increases.

In the long-run...

Mkt for Final Goods and Services.



Increase in AD (demand for final goods & services)

\Rightarrow businesses will hire more workers.

\Rightarrow wages will increase.

\Rightarrow increase in prod costs

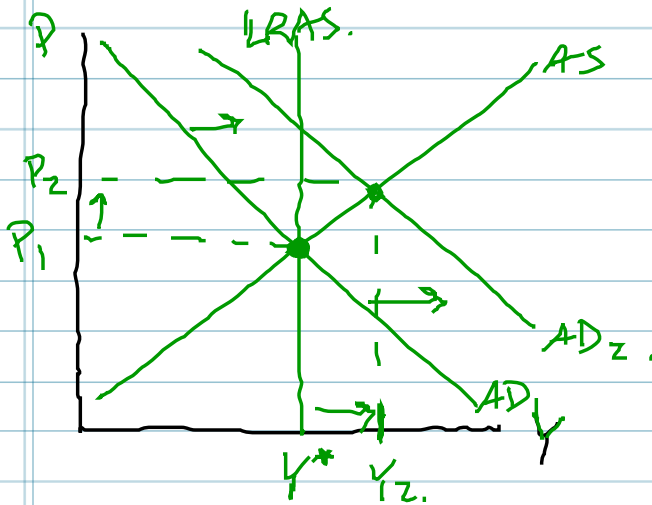
\Rightarrow AS left.

Price level increases
GDP returns to Y^* .

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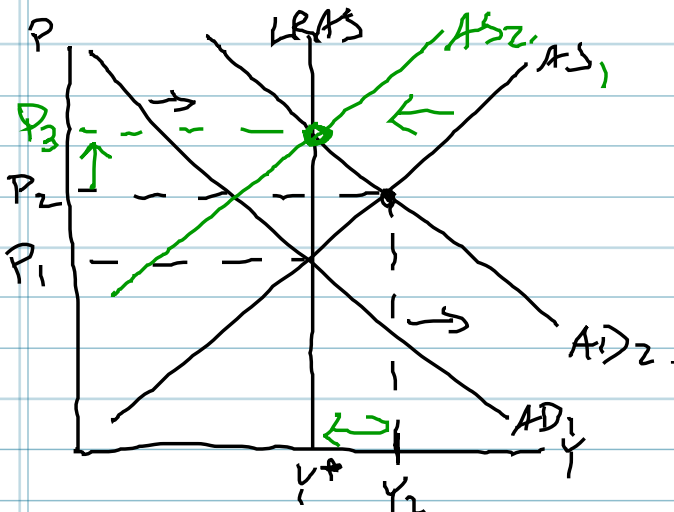
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