• Growth in potential output may slow down or speed up
• Even if potential output is growing normally, actual output may be higher or lower than potential output
• Firms adjust the prices of their output only periodically, adjusting to changes in demand in the short run
  o Known as "meeting the demand"
• Changes in the amount customers decide to spend will affect output
  o When spending is low, output may fall below potential
  o When spending is high, output may rise above potential
  o **Primary cause of output gaps**
• If demand exceeds potential output (expansionary gap), firms will raise their prices aggressively, spurring inflation
  o If demand falls beneath potential output (recessionary gap), firms may cut prices, reducing inflation
• In long run, firms eliminate output gap --> self correcting economy
  o In long run, total spending influences only the rate of inflation
• In the short run, producers often choose not to change their prices, but rather to meet the demand at present prices
  o Spending affects output
• In the long run, prices adjust to their market clearing levels, and output equals potential output
  o Spending affects price