- 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
    - Known as "meeting the demand"
- Changes in the amount customers decide to spend will affect output
    - When spending is low, output may fall below potential
    - When spending is high, output may rise above potential
    - Primary cause of output gaps
- If demand exceeds potential output (expansionary gap), firms will raise their prices aggressively, spurring inflation
    - If demand falls beneath potential output (recessionary gap), firms may cut prices, reducing inflation
- In long run, firms eliminate output gap --> self correcting economy
    - 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
    - Spending affects output
- In the long run, prices adjust to their market-clearing levels, and output equals potential output
    - Spending affects prices