ΔY

We know we want Equilibrium GDP to increase by 1,000: $\Delta Y = 1,000$

Effect on Consumption:

Effect on the Budget Deficit:

Δ Deficit = 0

The Balanced Budget Multiplier = 1

Assume: MPC = 0.8

Recessionary Gap: 7,000 - 6,000 = 1,000

1,000 $\Delta Y =$

Government Spending by 1,000 in order to close a 1,000 Recessionary Gap

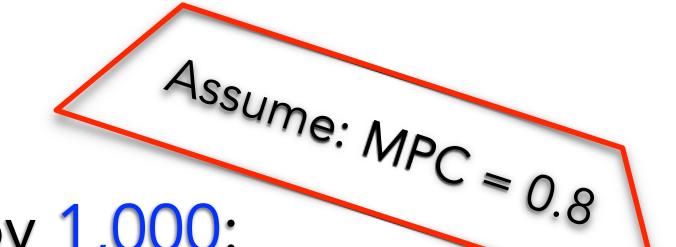
The Government must increase Taxes and

A 1,000 increase in Government Spending fully financed by a 1,000 increase in taxes will leave the deficit unchanged

 $\Delta T = \Delta G = 1,000$

Recessionary Gap:

7,000 - 6,000 = 1,000



We know we want Equilibrium GDP to increase by 1,000:

$$\Delta Y = 1,000$$

$$\Delta Y = \Delta T = \Delta G$$

$$\Delta Y = 1,000$$

$$\Delta T = \Delta G = 1,000$$

The Government must increase Taxes and Government Spending by 1,000 in order to close a 1,000 Recessionary Gap

Effect on Consumption:

$$\Delta C = 0$$

Effect on the Budget Deficit:

$$\Delta$$
 Deficit = 0

A 1,000 increase in Government Spending fully financed by a 1,000 increase in taxes will leave the deficit unchanged

