

**A**

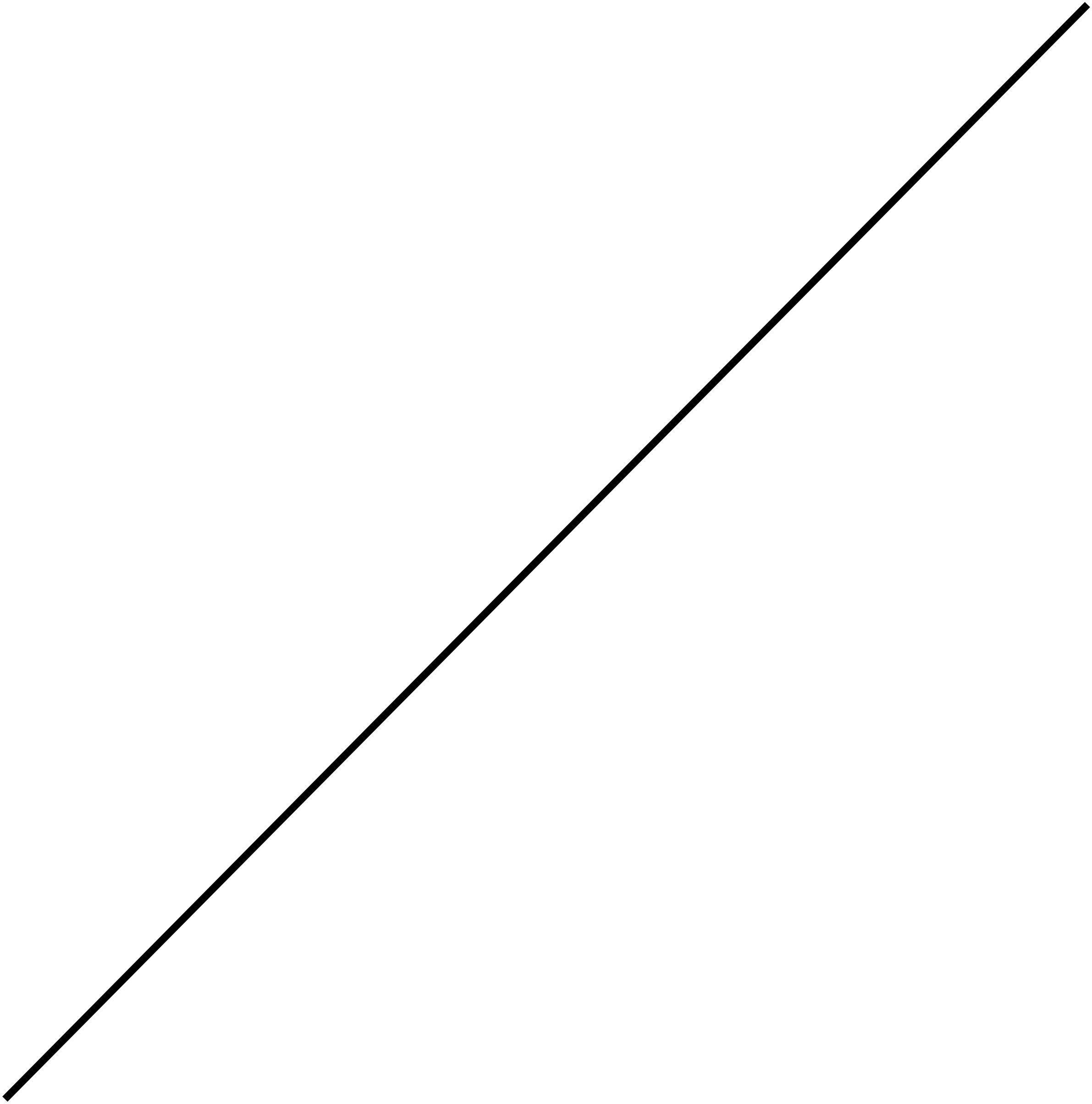
**E**



Equilibrium GDP:

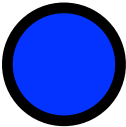
6,000







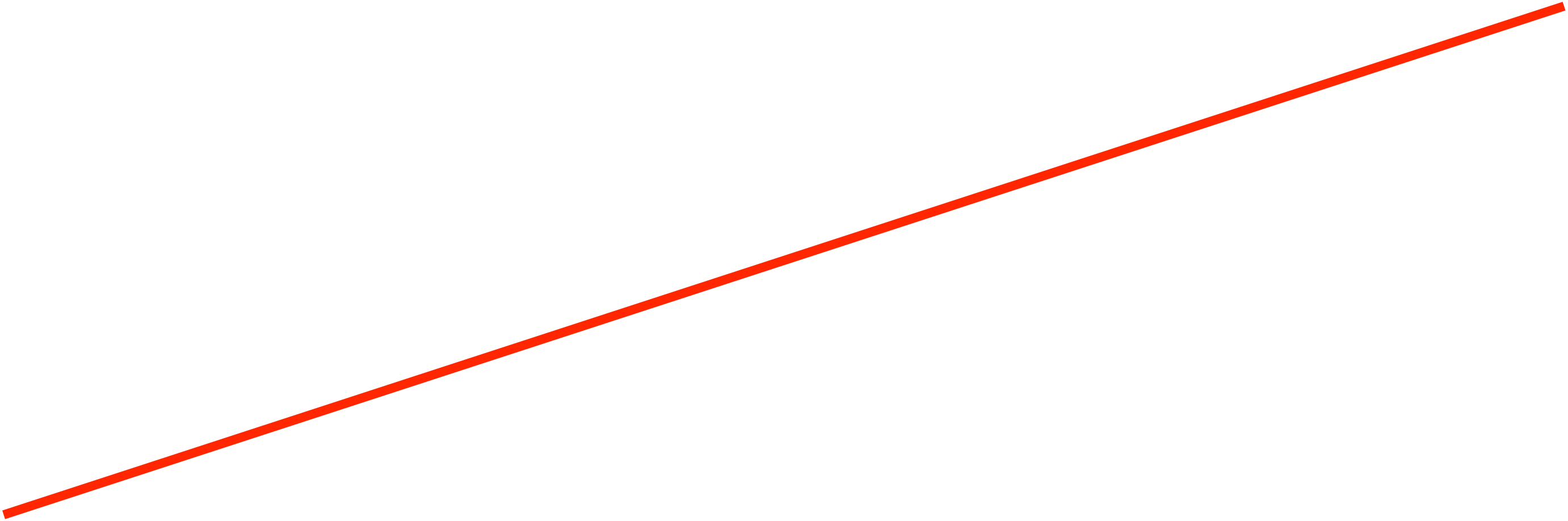
Equilibrium

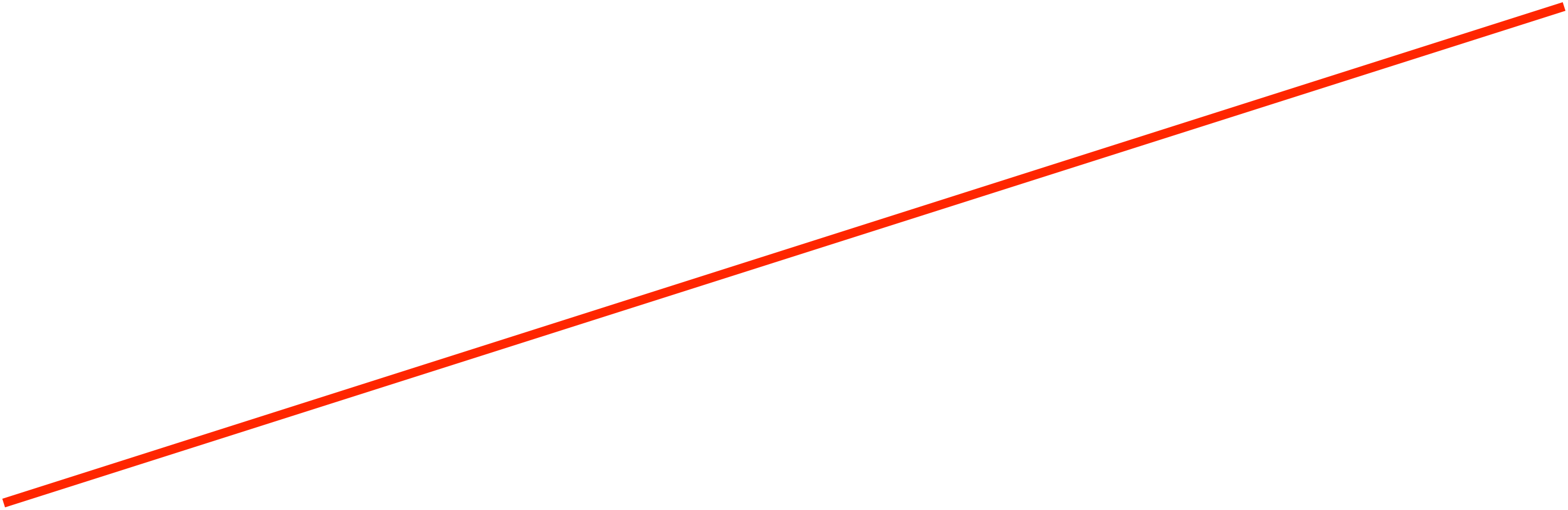


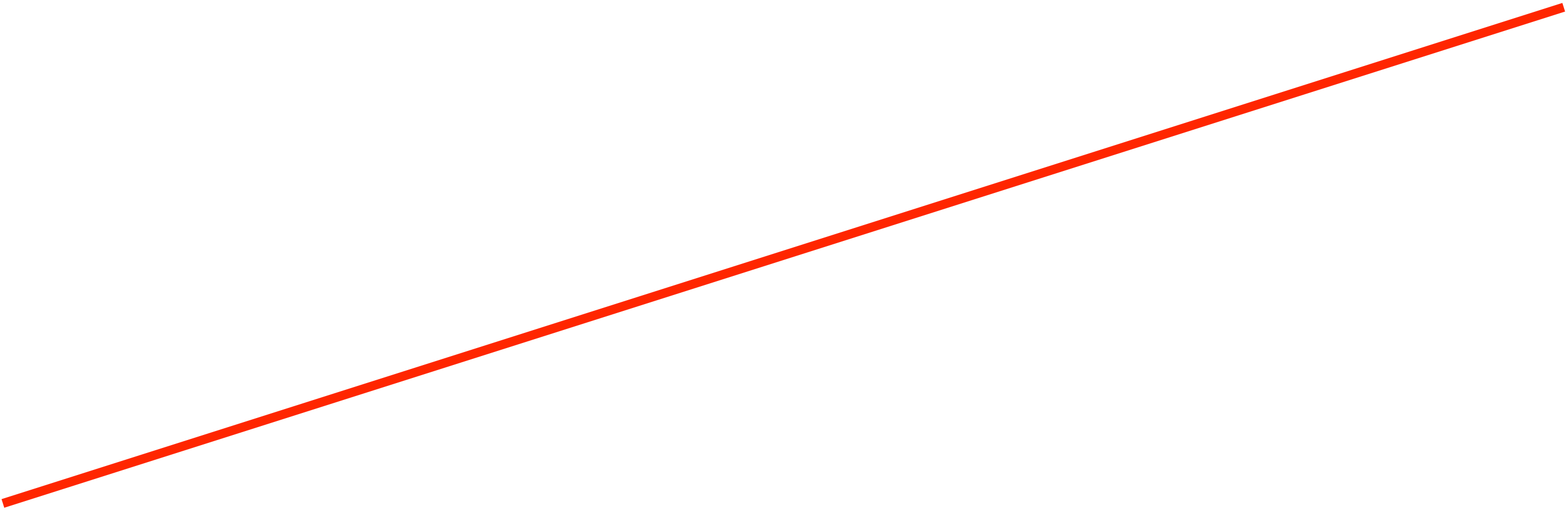
AE0

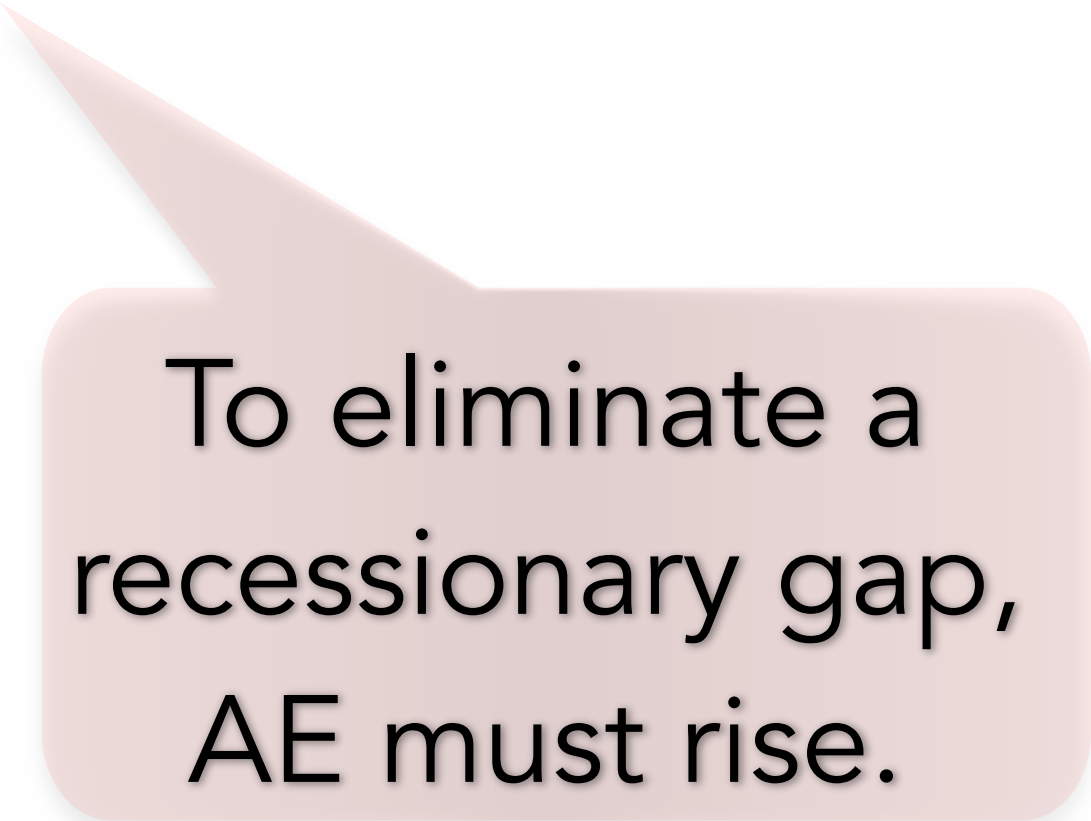
# Potential GDP







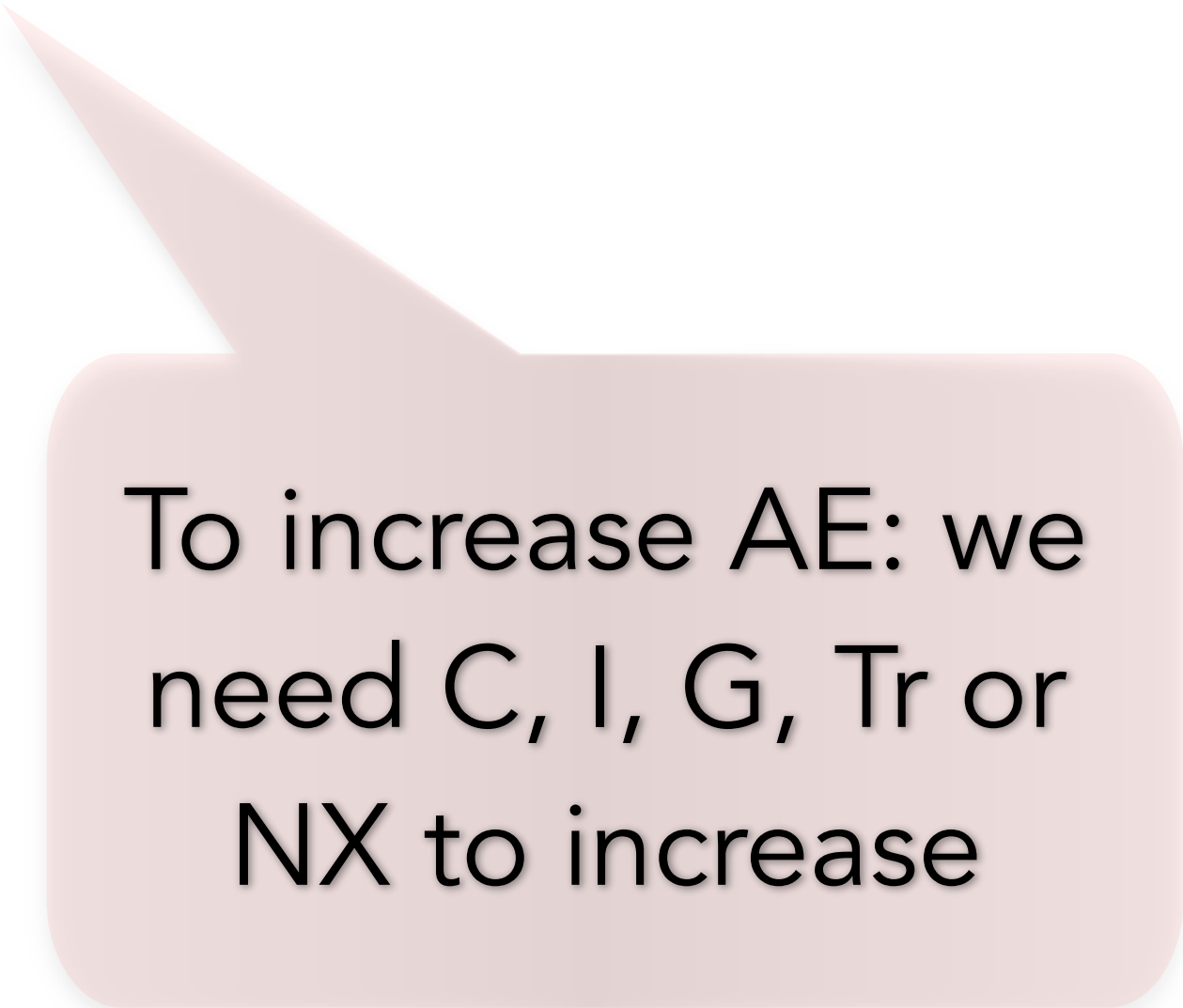




To eliminate a  
recessionary gap,  
AE must rise.

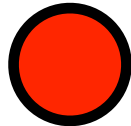


AE<sub>1</sub>



To increase AE: we  
need C, I, G, Tr or  
NX to increase

Equilibrium =



# Government Fiscal Policy

To increase Consumption: Decrease

Taxes or Increase Transfers

and/or

Increase Government spending

Potential

GDP : 7,000

