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If the Government wants to close a recessionary gap, the government can **Increase Spending** or **Decrease Taxes**

Are these two alternatives **equally** effective?

Both cause the **same** change in consumer spending

Both cause the Government's Budget Deficit to increase

Both **increase** the Government's Budget
Deficit by the **same** amount

Increasing Government Spending cause a **larger**
increase in GDP

Yes!

No!

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Both cause the Government's Budget Deficit to **increase**

Both **increase** the Government's Budget

No! Deficit by the **same** amount

Increasing Government Spending cause a **larger**
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Can the Government increase GDP without
increasing the budget deficit?