

A

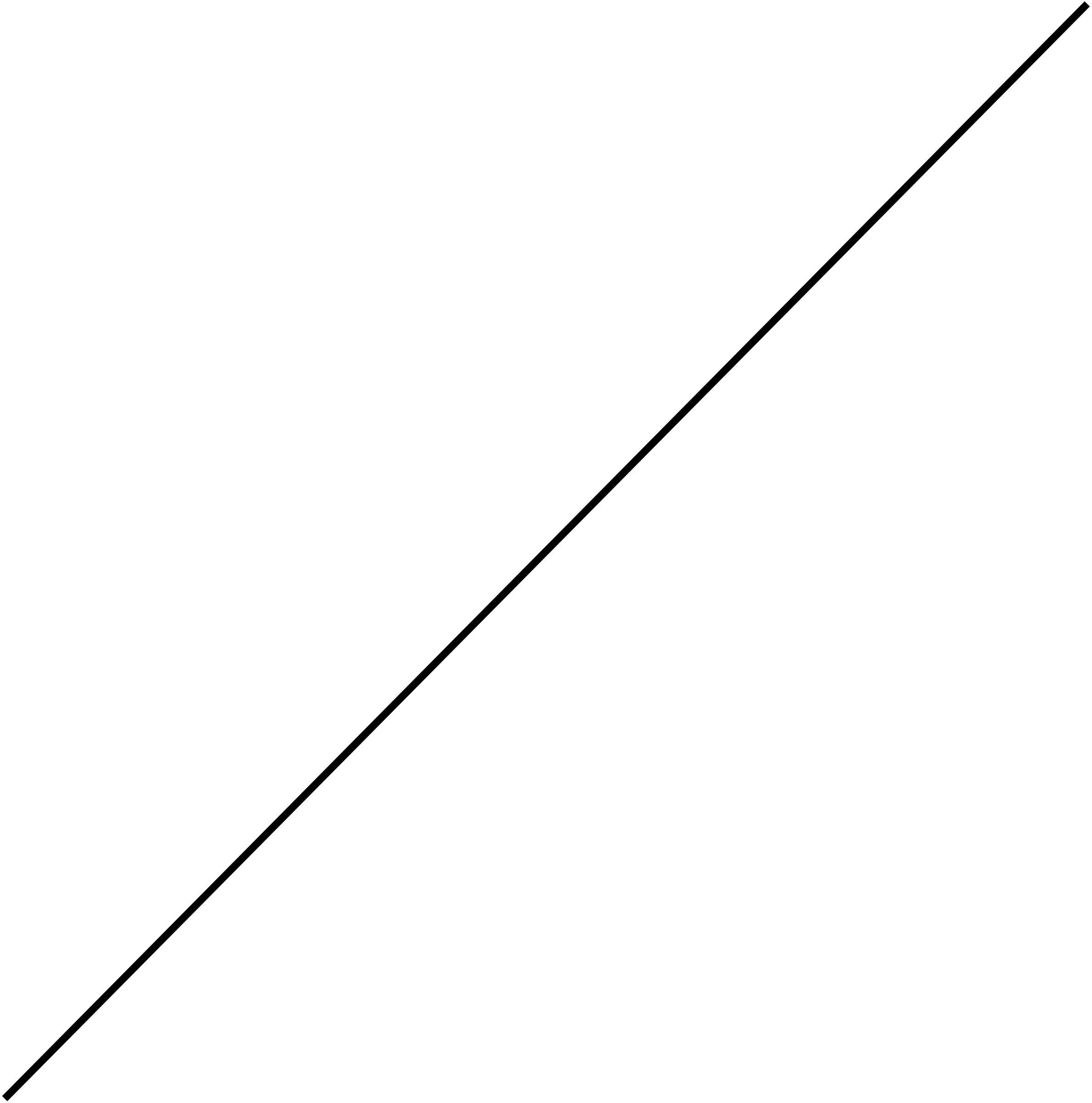
E



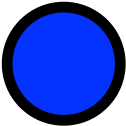
Equilibrium GDP:

9,000





Equilibrium



A

E

Potential GDP



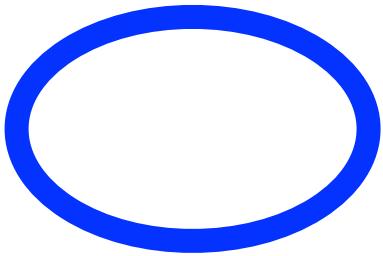
Potential

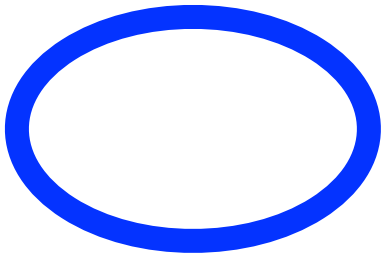
GDP : 7,000

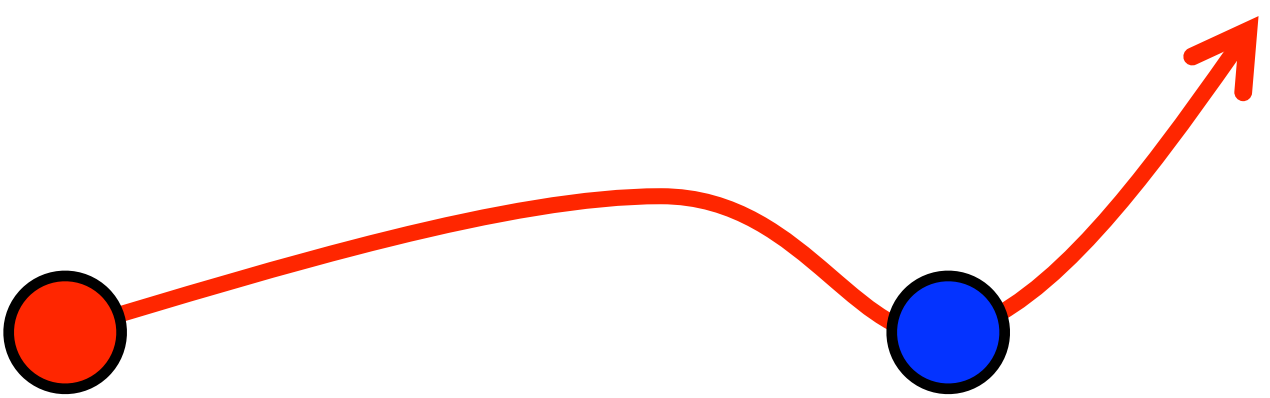


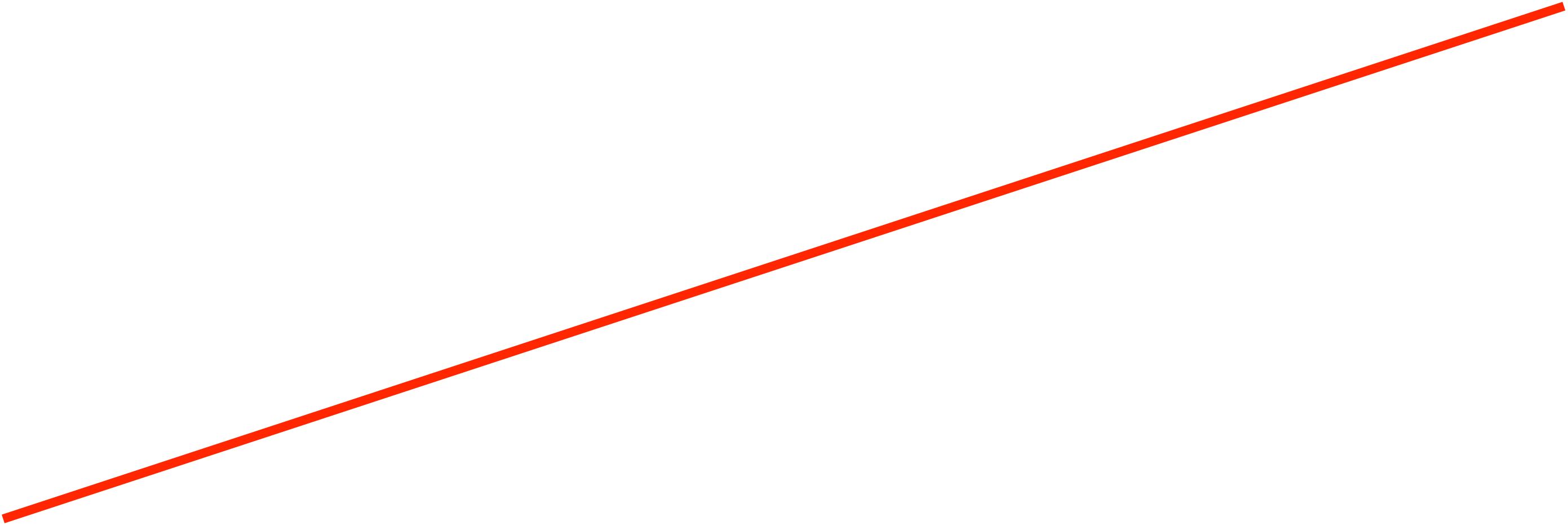
450

$$7,000-9,000=2,000$$





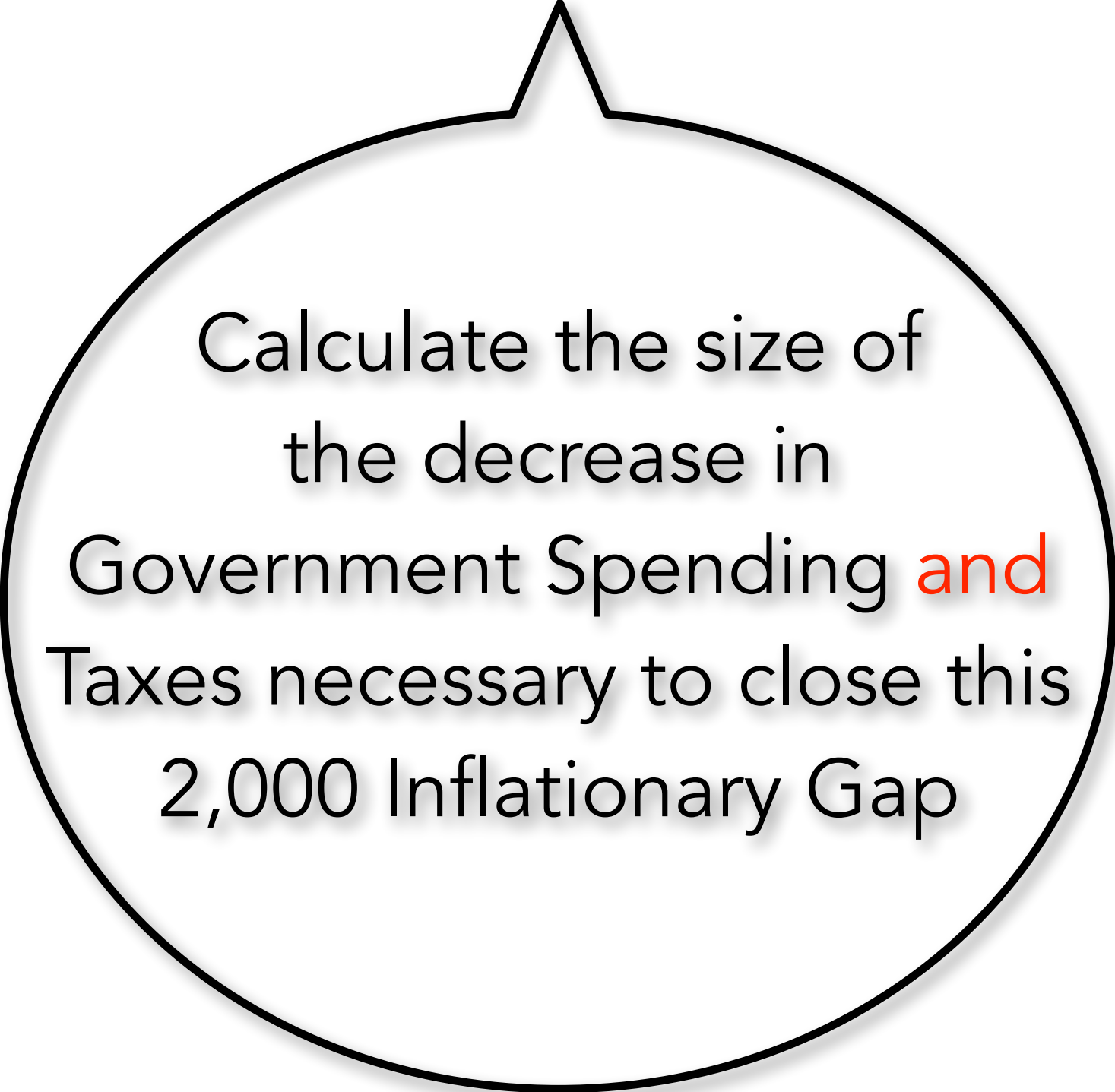




AE₁



Inflationary
Gap



Calculate the size of
the decrease in
Government Spending **and**
Taxes necessary to close this
2,000 Inflationary Gap

F







2













V











































V

G





W









U













2







9























V

































2





h











V













































V



2















Fiscal Policy: To close an
Inflationary Gap
without increasing the Deficit
the government must
decrease both Government
Spending and Taxes by the
same amount

Fiscal Policy: To close an Inflationary Gap without increasing the Deficit the government must decrease both Government Spending and Taxes by the same amount

Calculate the size of the decrease in Government Spending and Taxes necessary to close this 2,000 Inflationary Gap

