

A

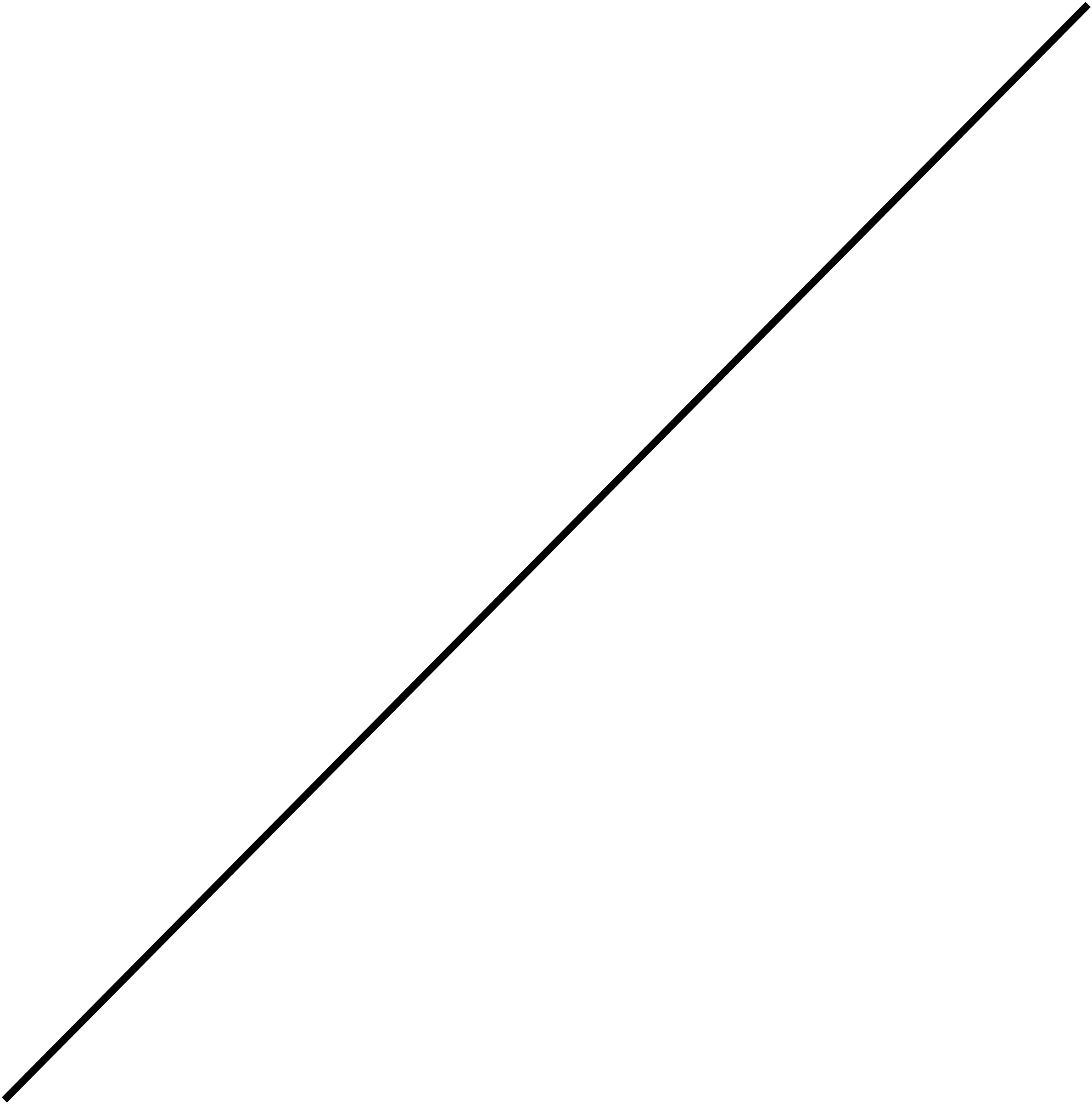
E



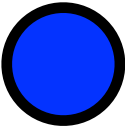
Equilibrium GDP:

6,000





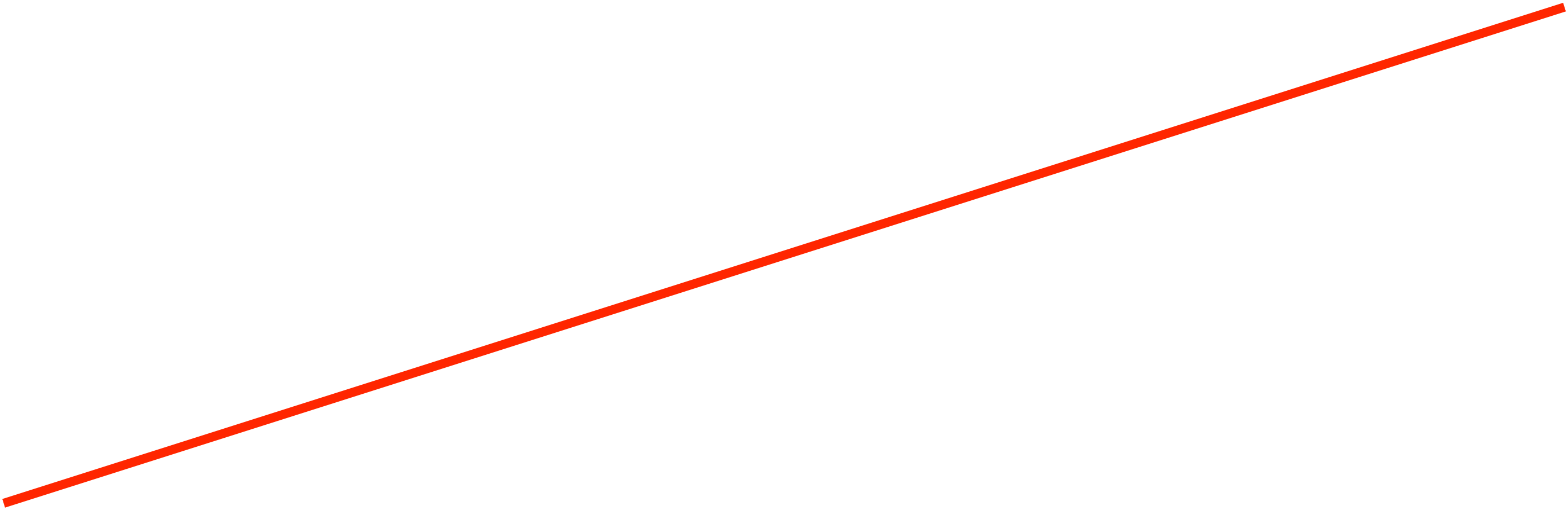
Equilibrium



AE0

Potential GDP





AE₁

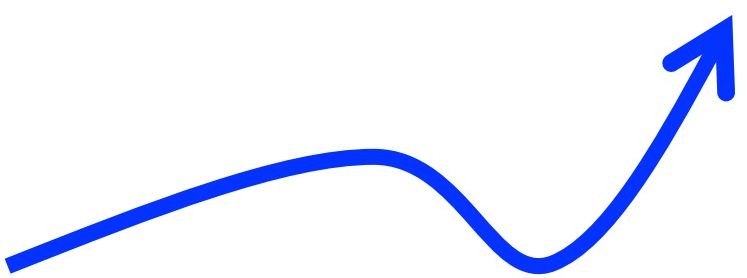


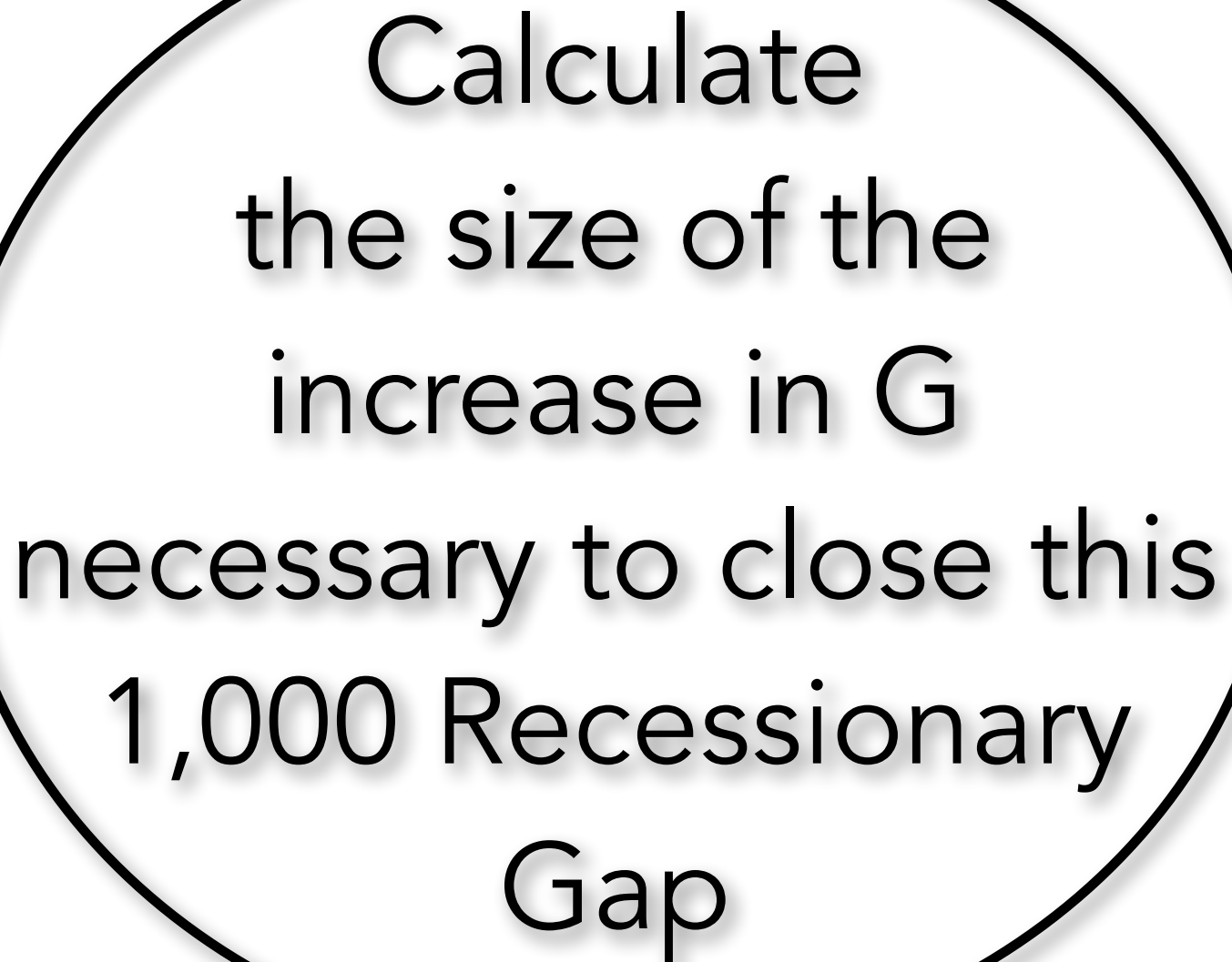
Potential

GDP : 7,000

Recessionary Gap:

$$7,000 - 6,000 = 1,000$$





Calculate
the size of the
increase in G
necessary to close this
1,000 Recessionary
Gap





S



2



P









Y

















6

R

















6



Y

G

6













2

S



G











m























 $\Delta G = ?$

Fiscal Policy: To close
a Recessionary Gap
Increase Government
spending

Fiscal Policy: To close
a Recessionary Gap
Increase Government
spending

Calculate
the size of the
increase in G
necessary to close this
1,000 Recessionary
Gap

