

A

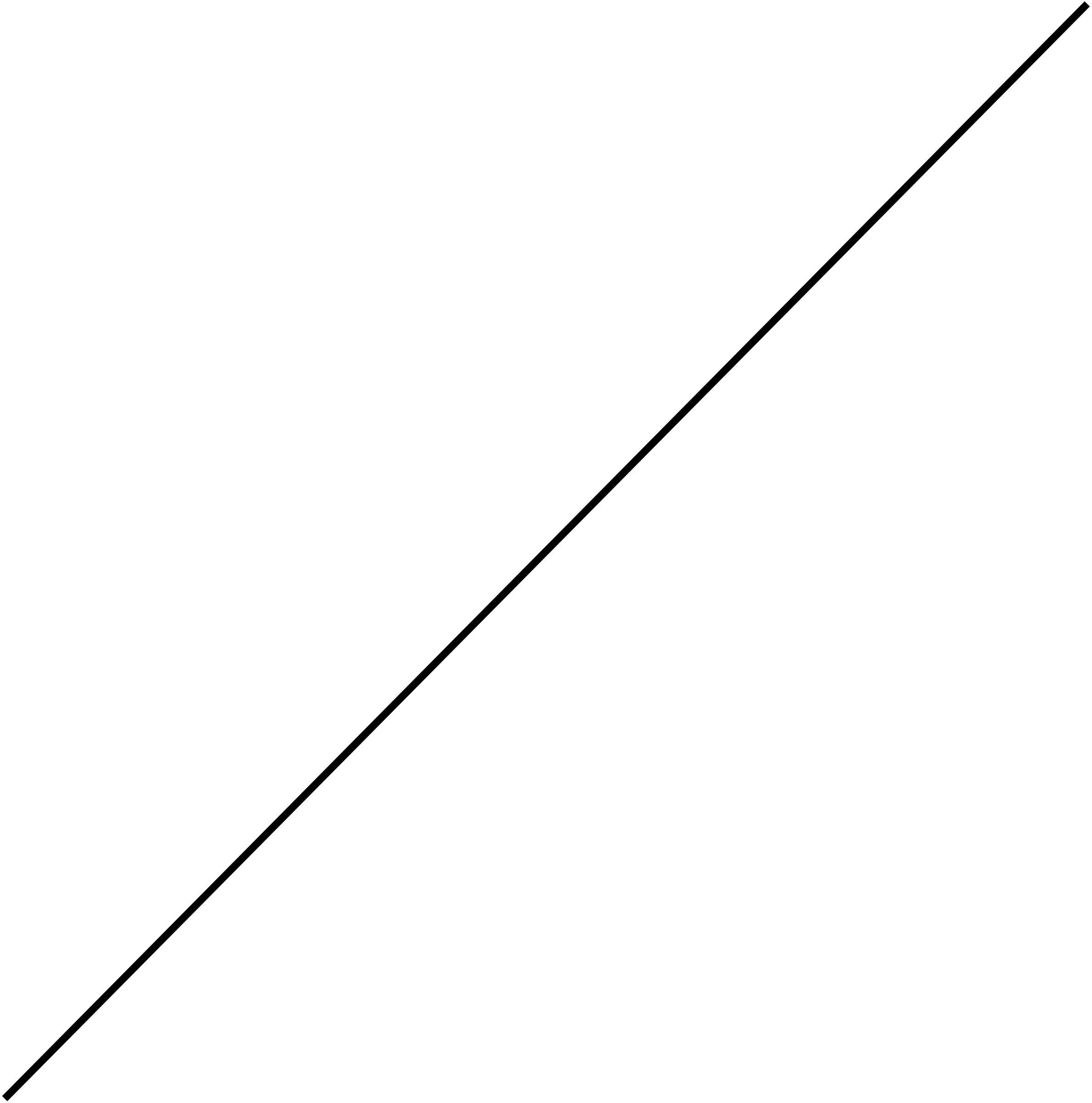
E



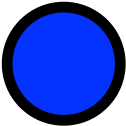
Equilibrium GDP:

9,000





Equilibrium



A

E

Potential GDP



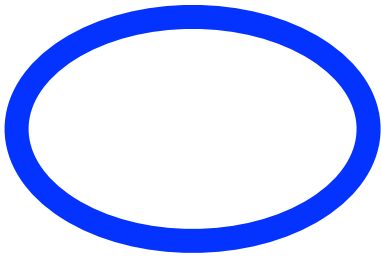
Potential

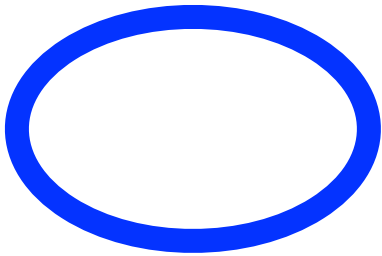
GDP : 7,000

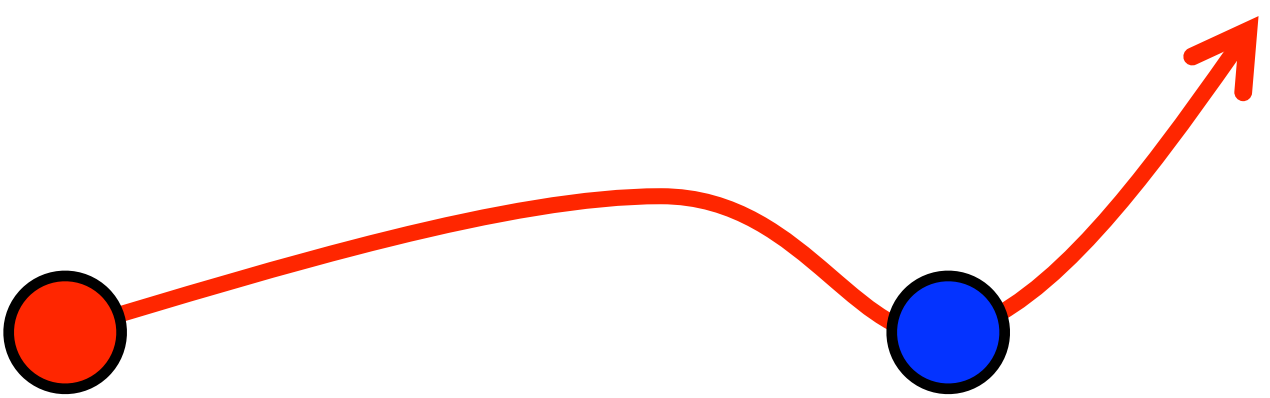


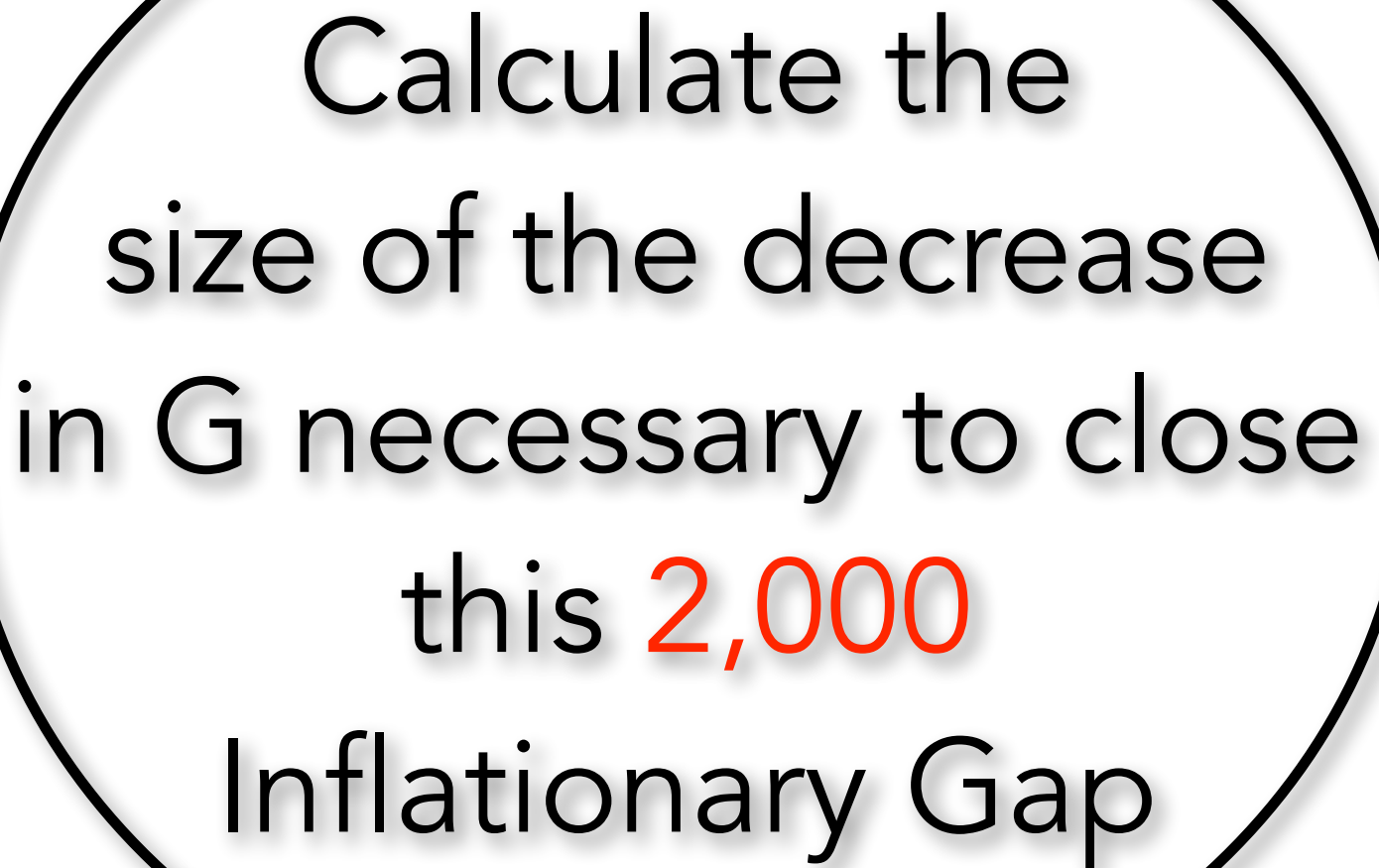
450

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









Calculate the
size of the decrease
in G necessary to close
this 2,000
Inflationary Gap





S



2



P









Y

















6











6









6



Y

G

6













2

S















m

















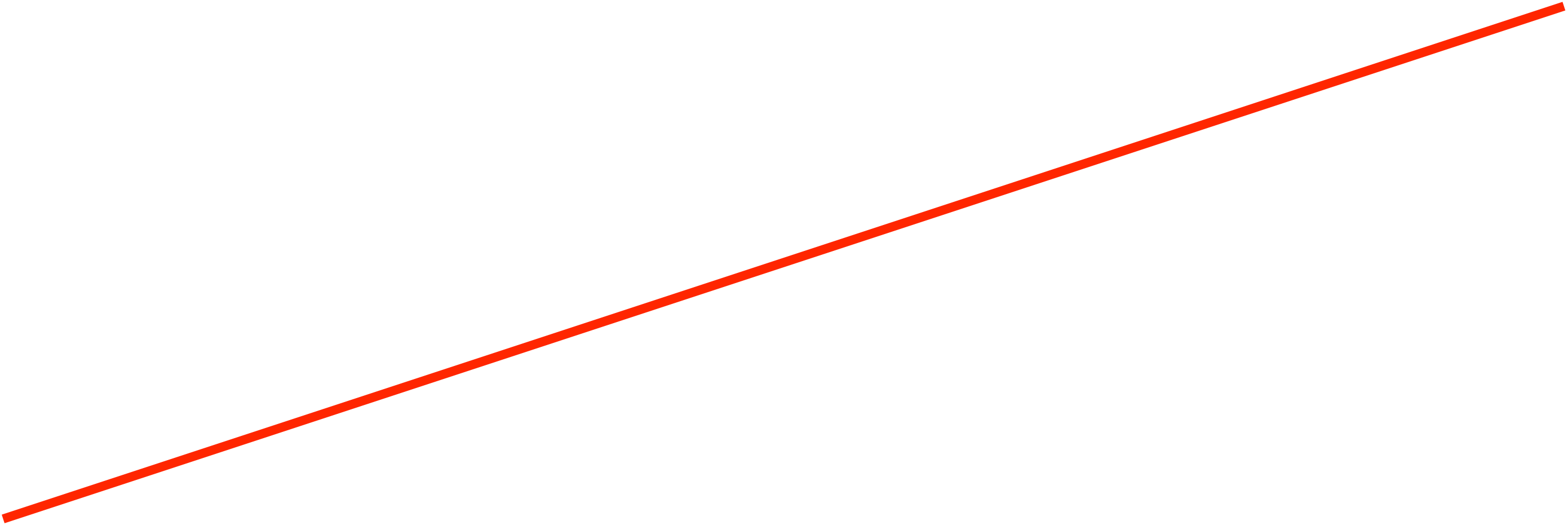






$\Delta G = ?$





AE₁



Inflationary
Gap

Fiscal Policy: To close
an Inflationary Gap
Decrease Government
spending

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