

A

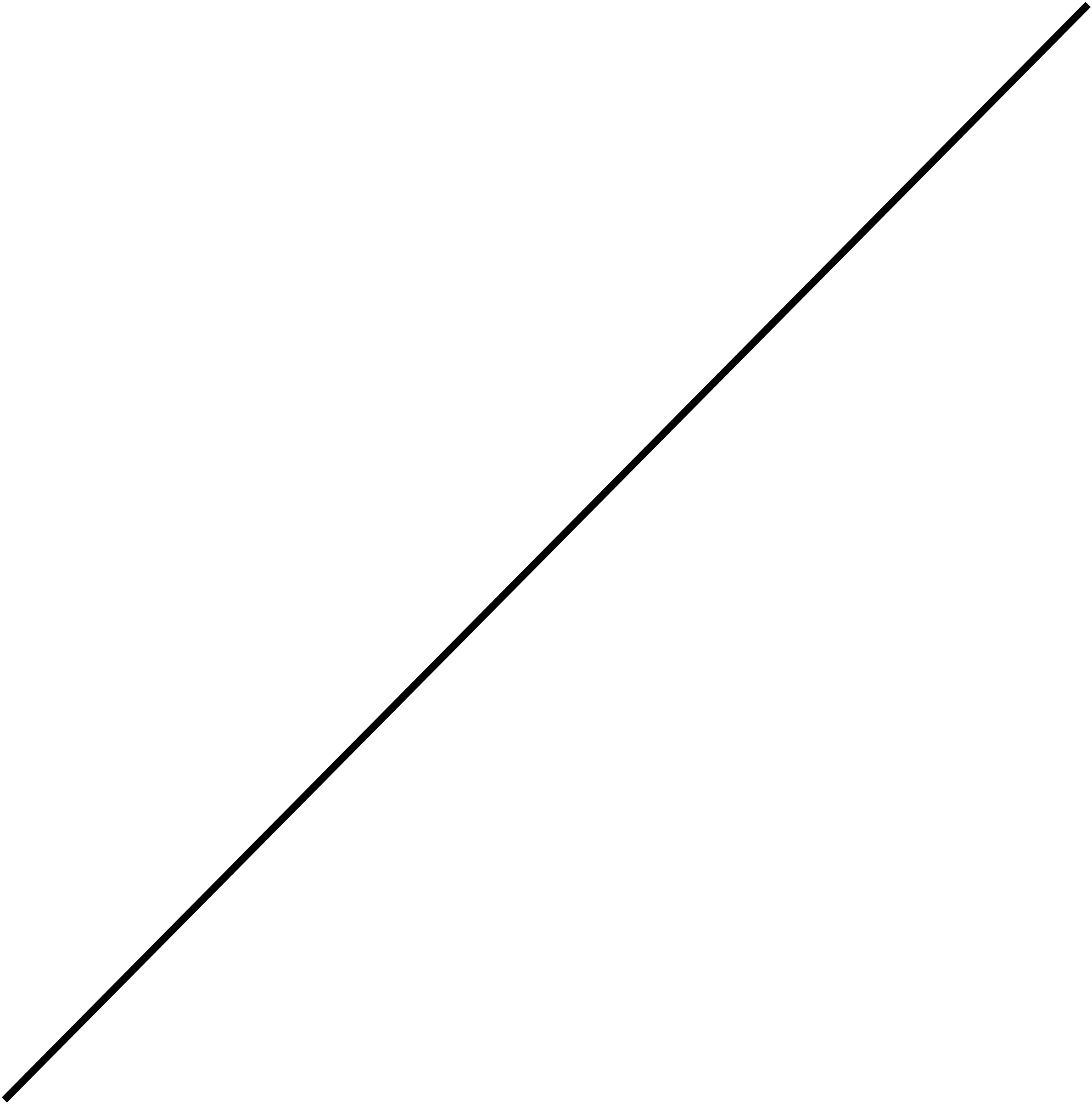
E



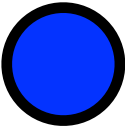
Equilibrium GDP:

6,000





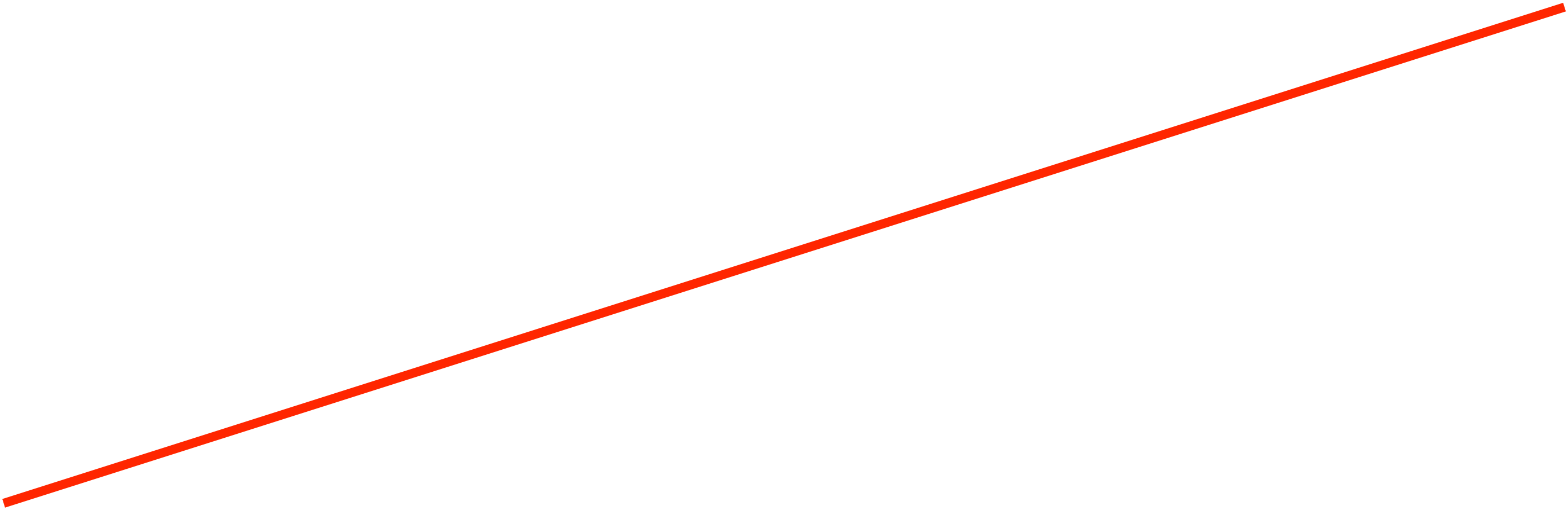
Equilibrium



AE0

Potential GDP





AE₁

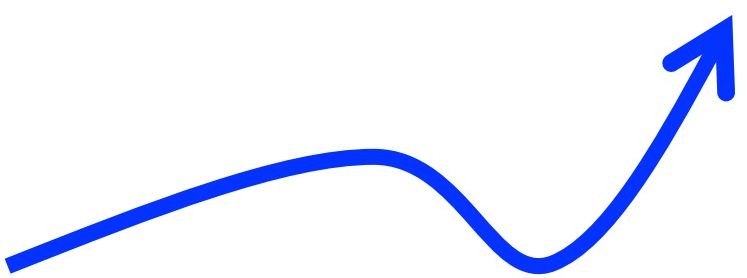


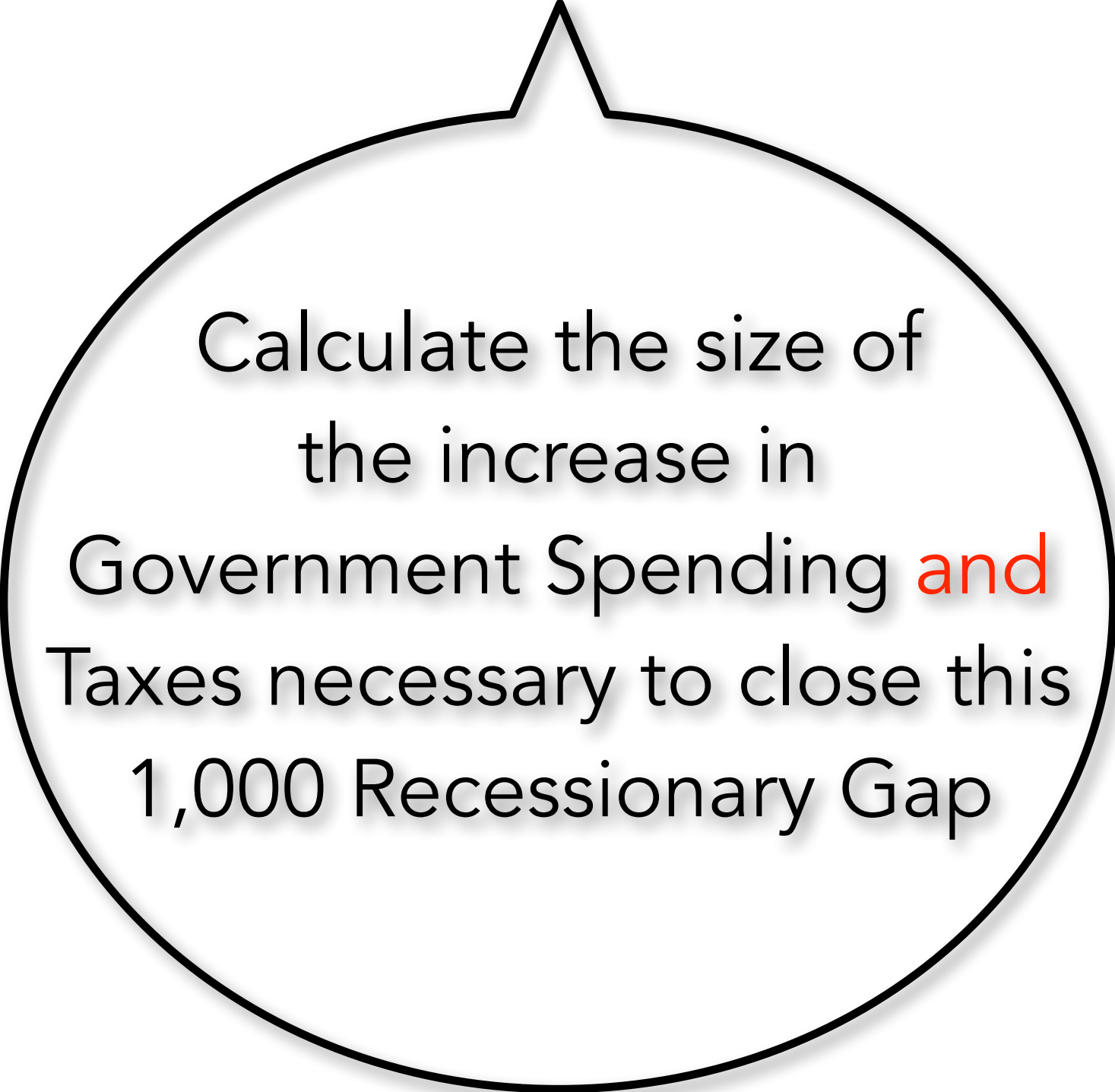
Potential

GDP : 7,000

Recessionary Gap:

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





Calculate the size of
the increase in
Government Spending and
Taxes necessary to close this
1,000 Recessionary Gap









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Fiscal Policy: To close a
Recessionary Gap
without increasing the Deficit
the government must
increase both Government
Spending and Taxes by the
same amount

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