

A

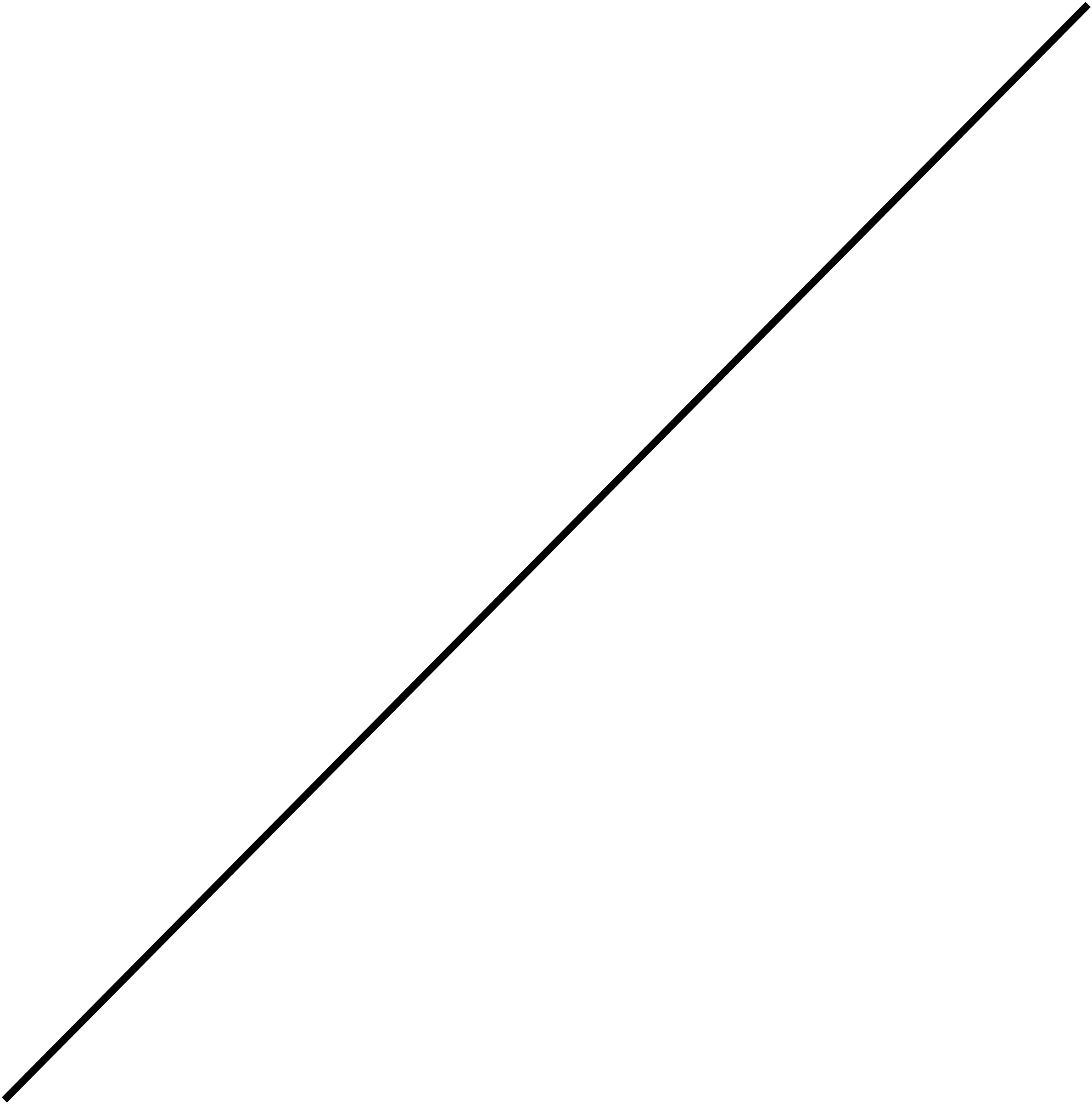
E



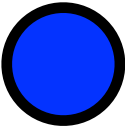
Equilibrium GDP:

6,000





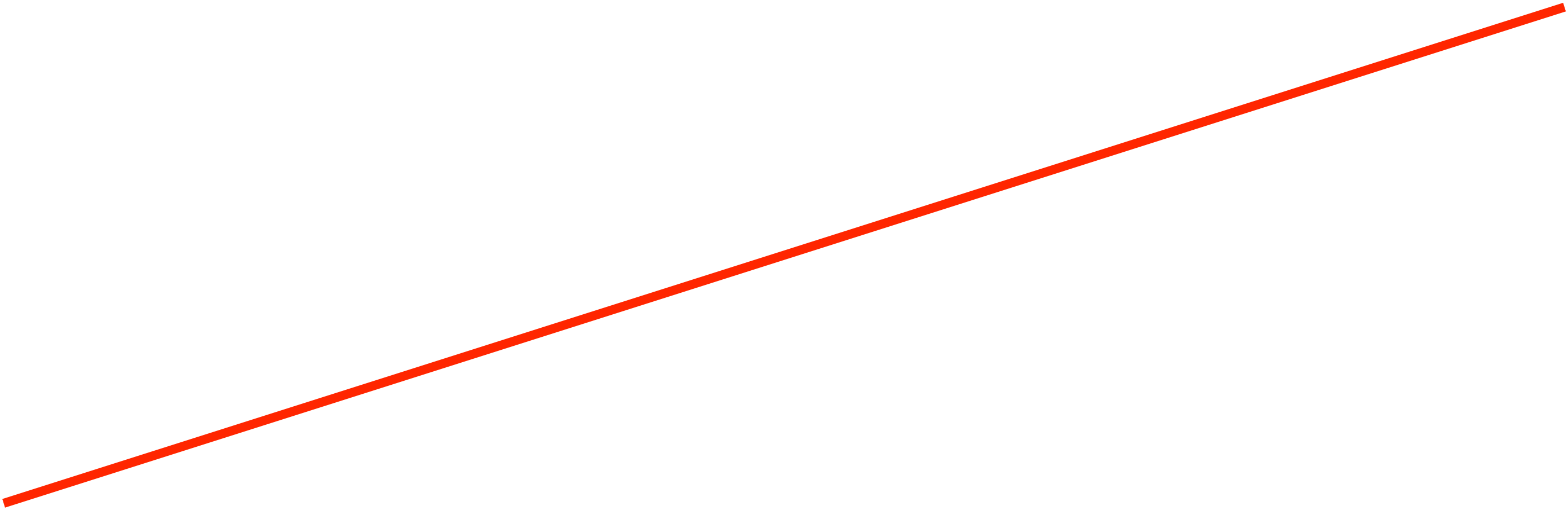
Equilibrium



AE0

Potential GDP





AE₁

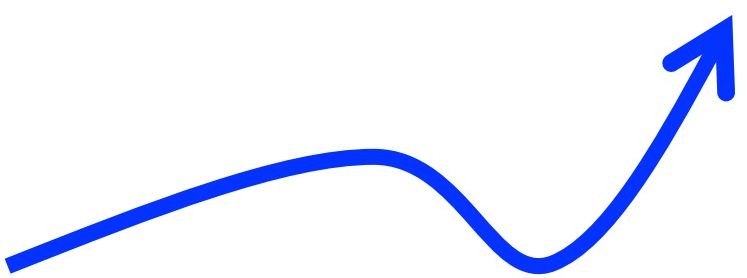


Potential

GDP : 7,000

Recessionary Gap:

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



F







2



P









Y



















R





















V

















2







































































$$\Delta a = 200$$

The Government must
decrease Taxes by 250 in
order to close a 1,000
Recessionary Gap

If taxes decrease by 250,
Disposable Income increase
by 250 and Consumption
increase by $250 \times \text{MPC} =$
 $250 \times 0.8 = 200$

Fiscal Policy: To close a
Recessionary Gap
Decrease Taxes in order to
increase Consumption

Fiscal Policy: To close a
Recessionary Gap
Decrease Taxes in order to
increase Consumption

The Government must
decrease Taxes by **250** in
order to close a **1,000**
Recessionary Gap

If taxes decrease by 250,
Disposable Income increase
by **250** and Consumption
increase by $250 \times \text{MPC} =$
 $250 \times 0.8 = \mathbf{200}$

