

NY = NT = NG

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We know we want Equilibrium GDP to decrease by 2,000:

$$\Delta Y = -2,000$$

Effect on Consumption:

Effect on the Budget Deficit:

Δ Deficit = 0

The Balanced Budget
Multiplier = 1

Assume: $MPC = 0.8$

Recessionary Gap:

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

NY = -2,000

The Government must decrease Taxes and Government Spending by 2,000 in order to close a 2,000 Inflationary Gap

A 2,000 decrease in
Government Spending and a
simultaneous 2,000 decrease in
taxes will leave the deficit
unchanged

$$\Delta T = \Delta G = -2,000$$

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The Balanced Budget
Multiplier = 1

$$\Delta Y = \Delta T = \Delta G$$

$$\Delta Y = -2,000$$

$$\Delta T = \Delta G = -2,000$$

The Government must **decrease** Taxes **and** Government Spending by **2,000** in order to close a **2,000** Inflationary Gap

Effect on **Consumption**:

$$\Delta C = 0$$

Effect on the Budget Deficit:

$$\Delta \text{Deficit} = 0$$

A 2,000 decrease in Government Spending and a simultaneous 2,000 decrease in taxes will leave the deficit unchanged

