

A

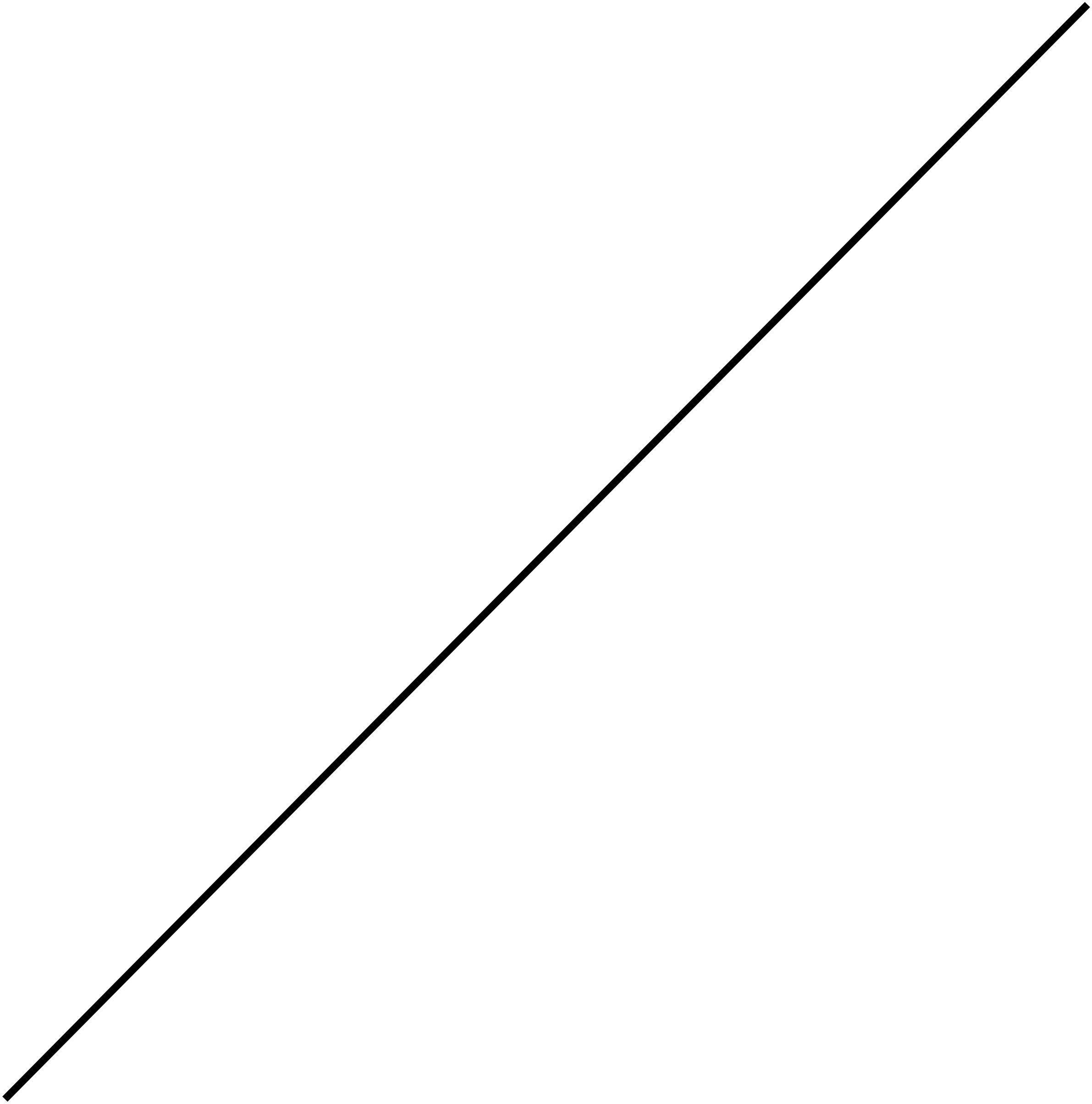
E



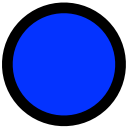
Equilibrium GDP:

6,000





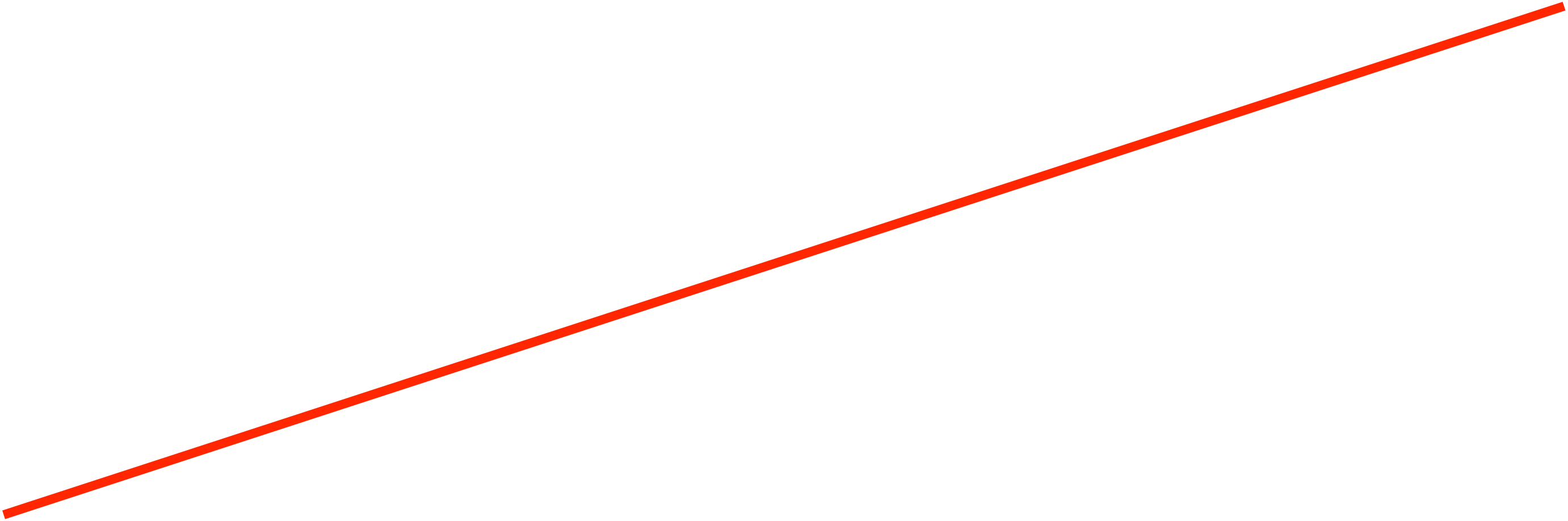
Equilibrium

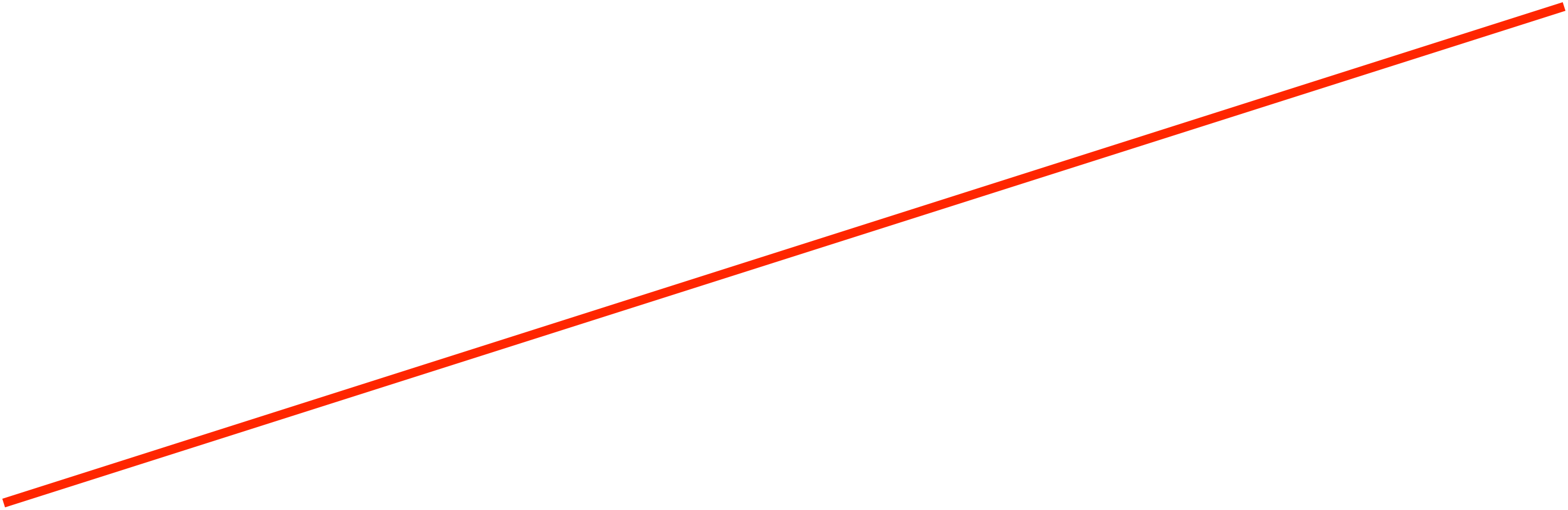


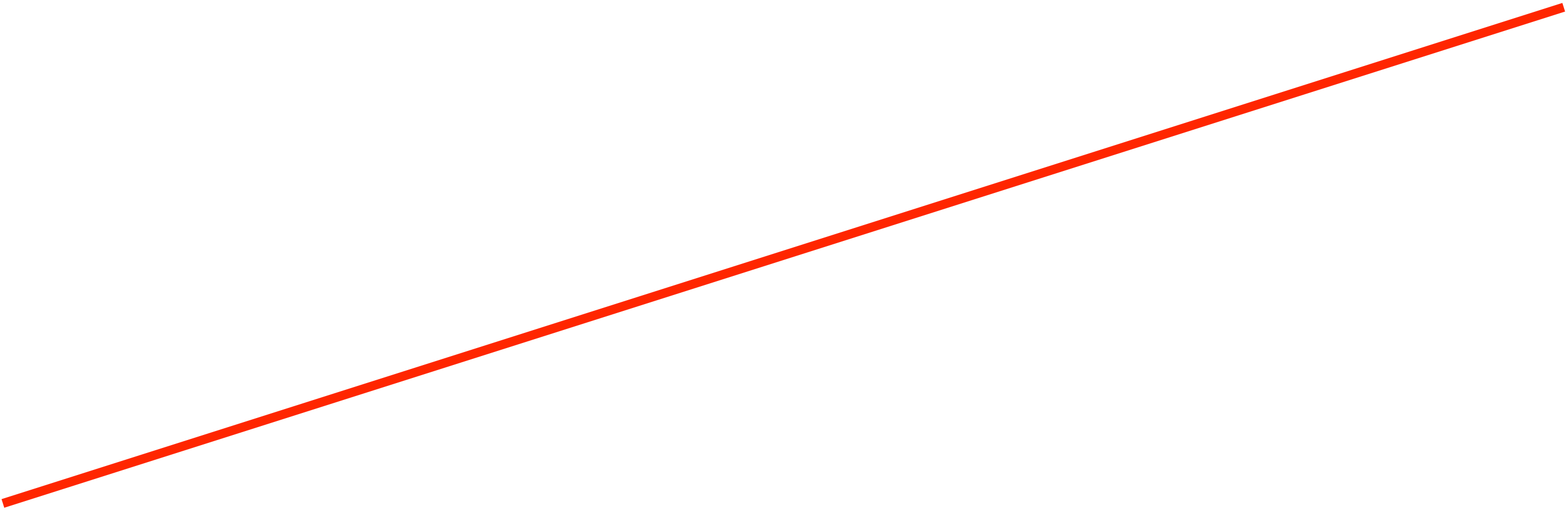
AE0

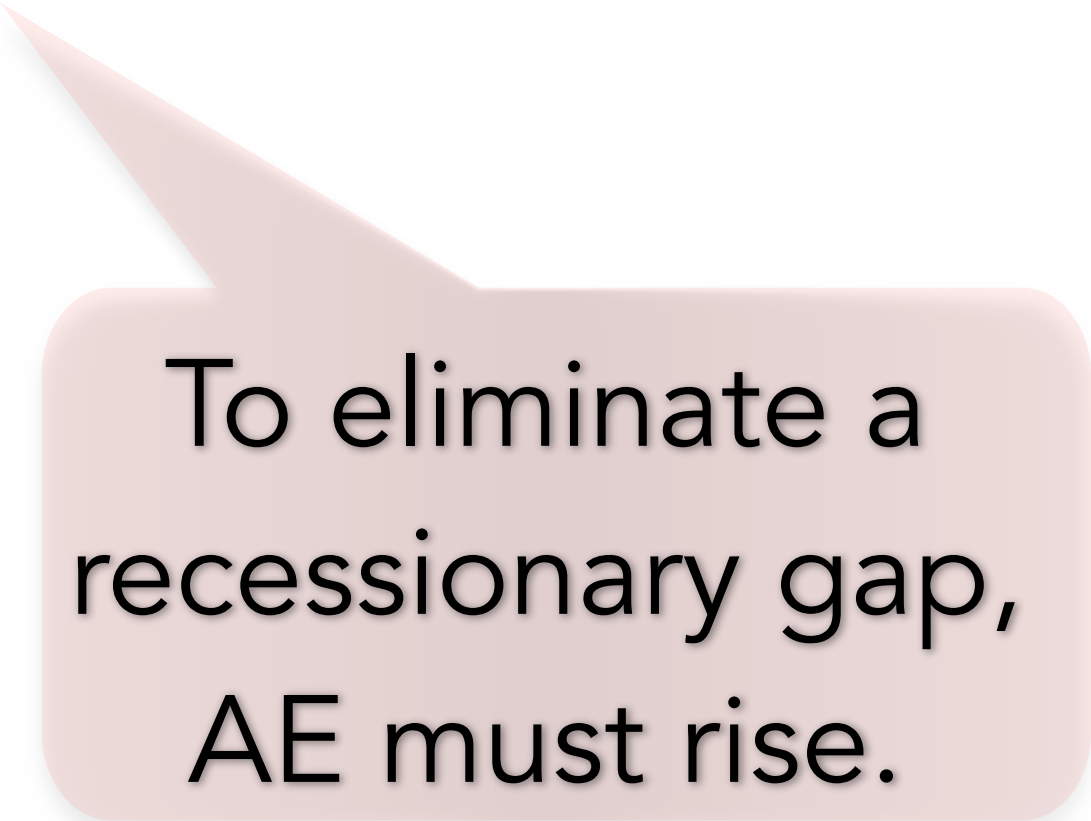
Potential GDP





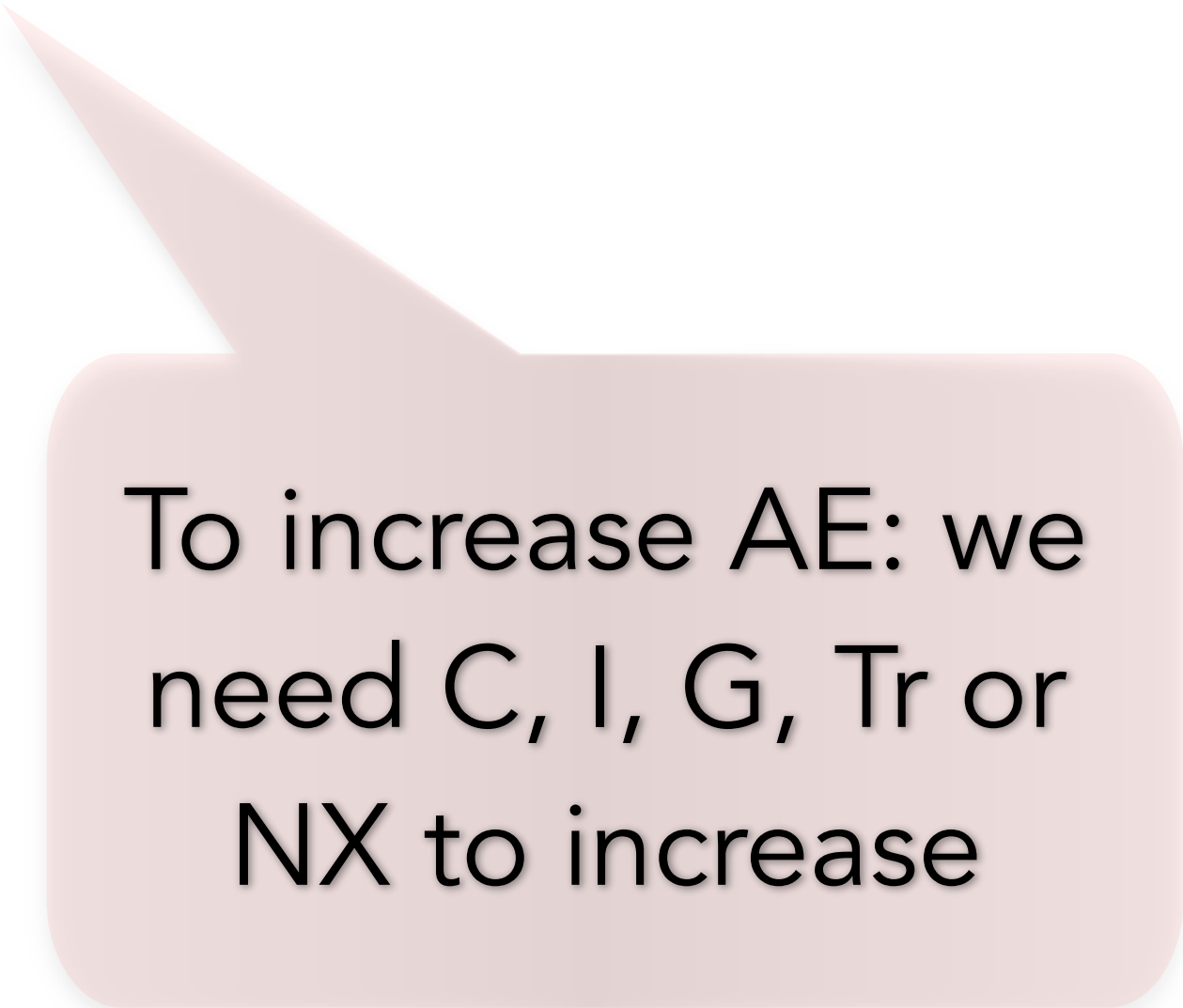







To eliminate a
recessionary gap,
AE must rise.

AE₁



To increase AE: we
need C, I, G, Tr or
NX to increase

Equilibrium = 

Government Policy

To **increase C**: Decrease Taxes or Increase Transfers

To **increase I**: Decrease interest rates

Government may **increase** spending or

To **increase NX** make the dollar weaker

Potential

GDP : 7,000

