

NY = NT = NG

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We know we want Equilibrium GDP to increase by 1,000:

$$\Delta Y = 1,000$$

Effect on Consumption:

Effect on the Budget Deficit:

Δ Deficit = 0

The Balanced Budget
Multiplier = 1

Assume: $MPC = 0.8$

Recessionary Gap:

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

NY = 1,000,000

The Government must **increase Taxes and**
Government Spending by 1,000 in order to
close a **1,000** Recessionary Gap

A 1,000 increase in
Government Spending fully
financed by a 1,000 increase in
taxes will leave the deficit
unchanged

$\Delta T = \Delta G = 1,000$

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The Balanced Budget
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Government Spending by **1,000** in order to
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Effect on **Consumption**:

$$\Delta C = 0$$

Effect on the Budget Deficit:

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

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