

 \Box

2. Is total spending larger than/smaller than/equal to Output?

3. Do Inventories fall, rise or remain unchanged?

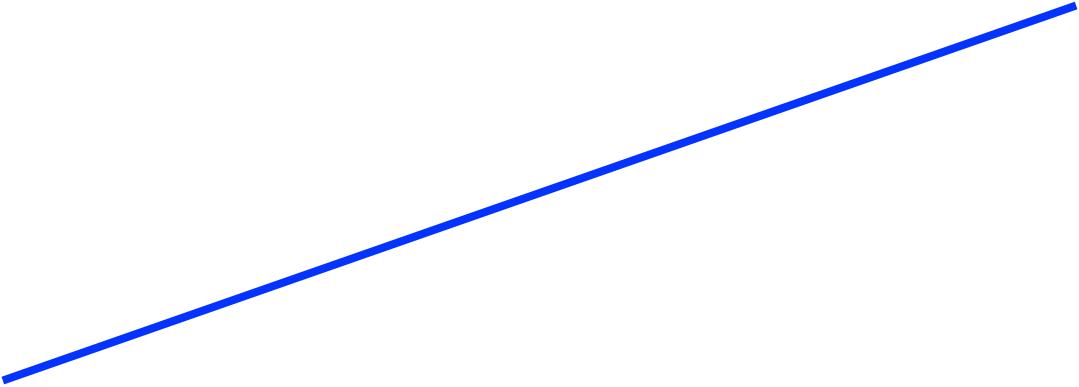
4. Does the economy experience a recessionary/inflationary gap?

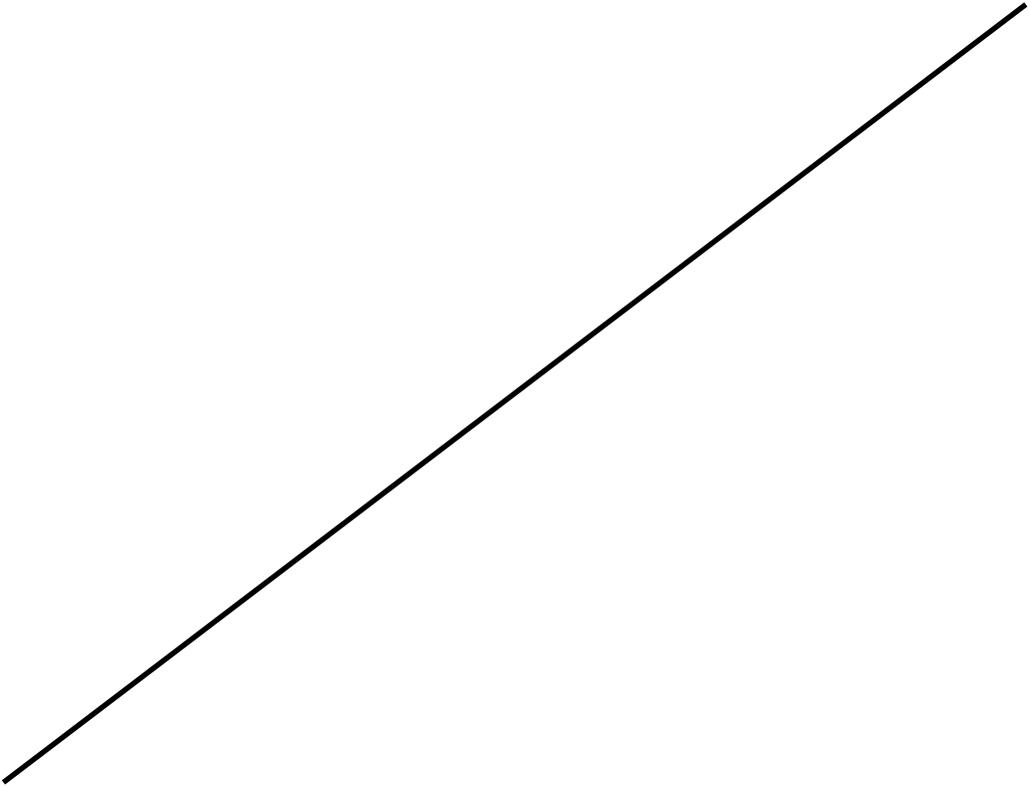
5. What is the size of the gap?

6. How can the gap be closed?



Assume the Economy is at Equilibrium



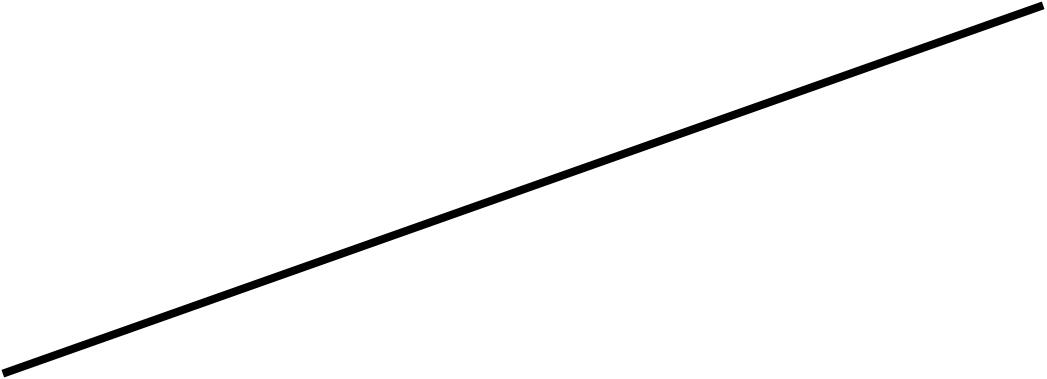




Potential GDP

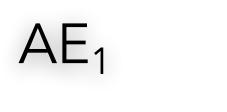








GDP = 4,000





AE = 4,000

GDP = 5,000



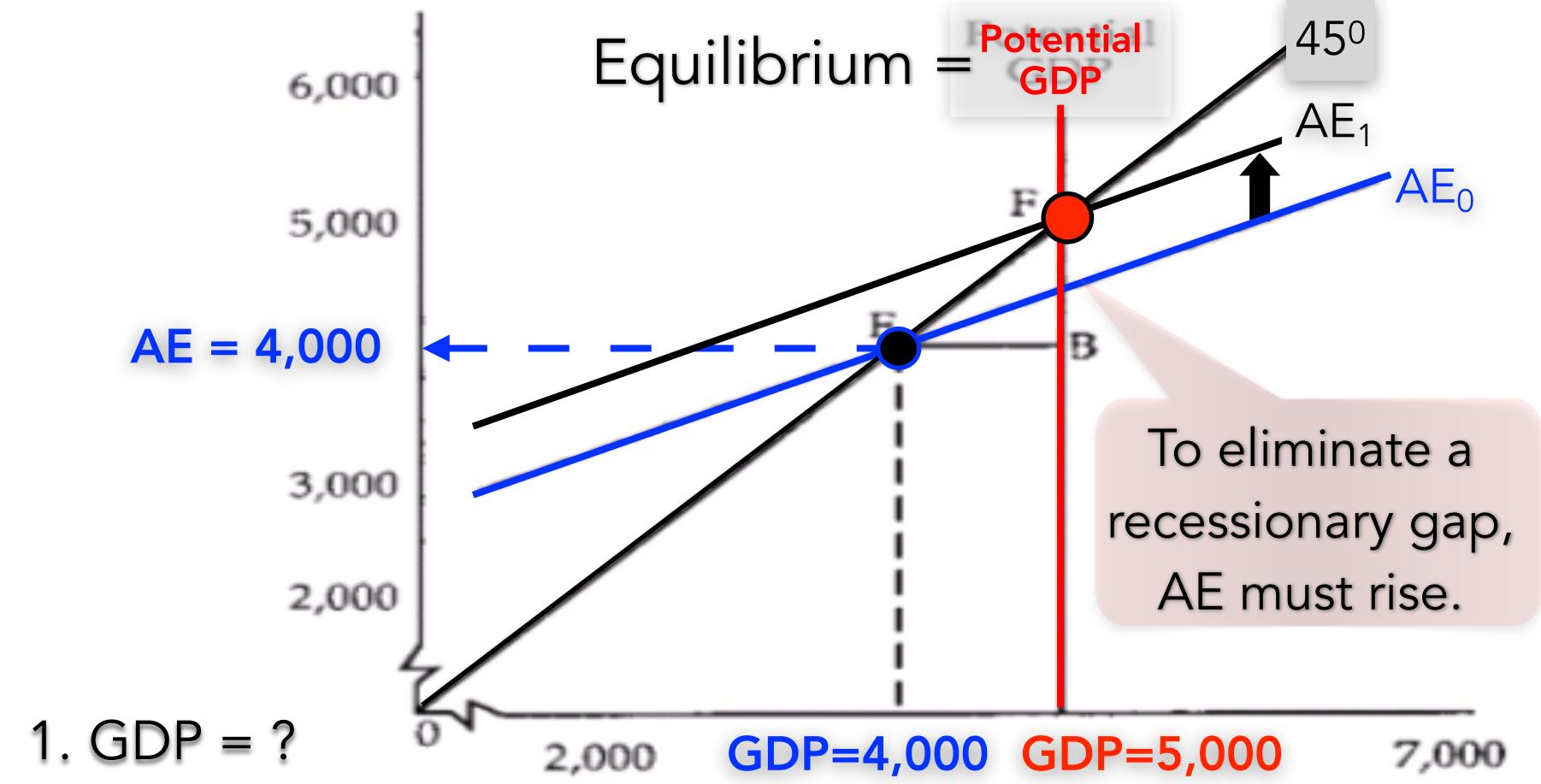




Gap = 5,000 - 4,000 = 1,000

To eliminate a recessionary gap, AE must rise.

Equilibrium =



- 2. Is total spending larger than/smaller than/equal to Output?
- 3. Do Inventories fall, rise or remain unchanged?
- 4. Does the economy experience a recessionary/inflationary gap?
- 5. What is the size of the gap? Gap = 5,000 4,000 = 1,000
- 6. How can the gap be closed?

