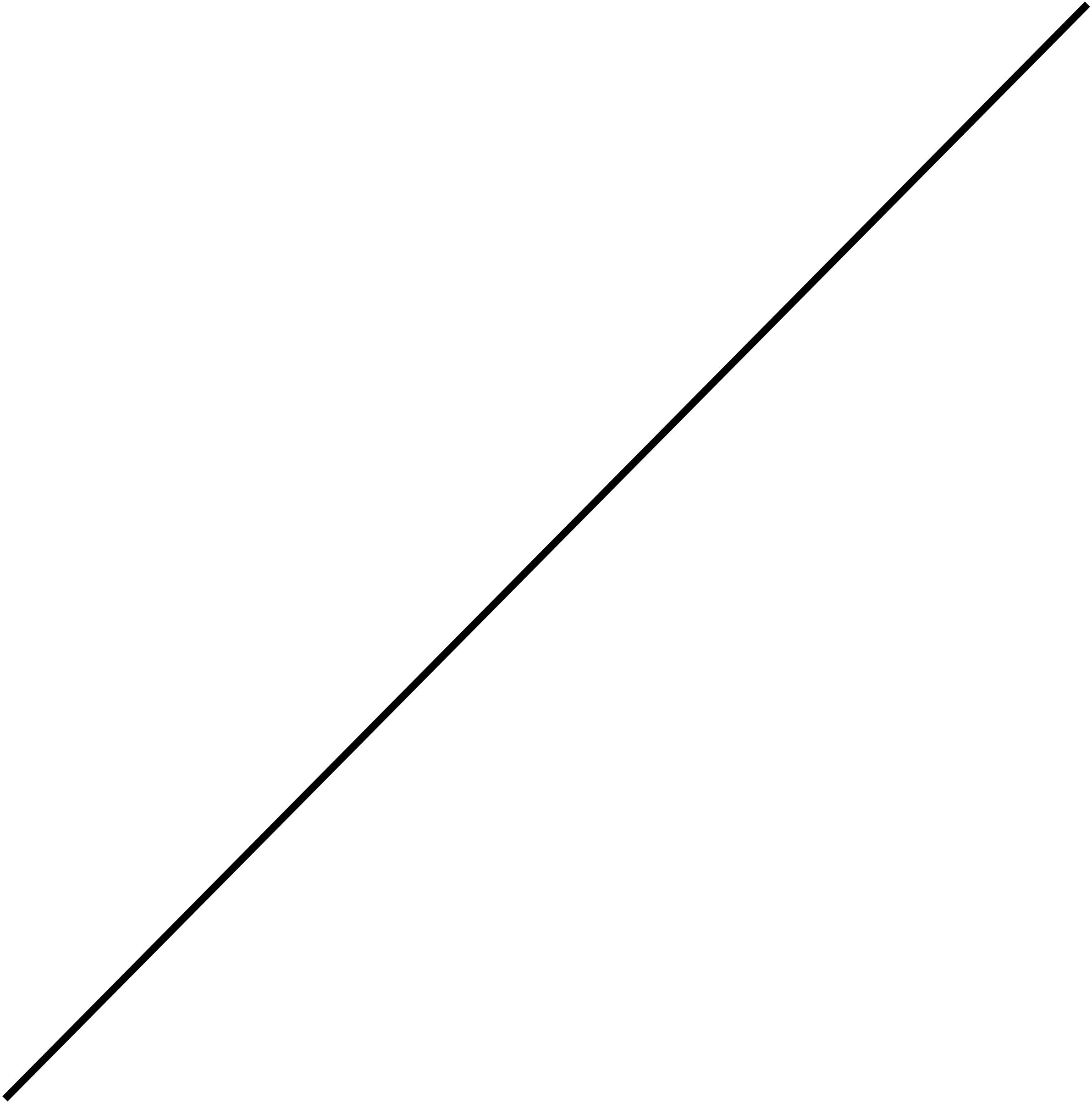




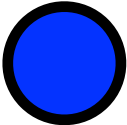
Equilibrium GDP:

9,000





Equilibrium



AE0

Potential
GDP

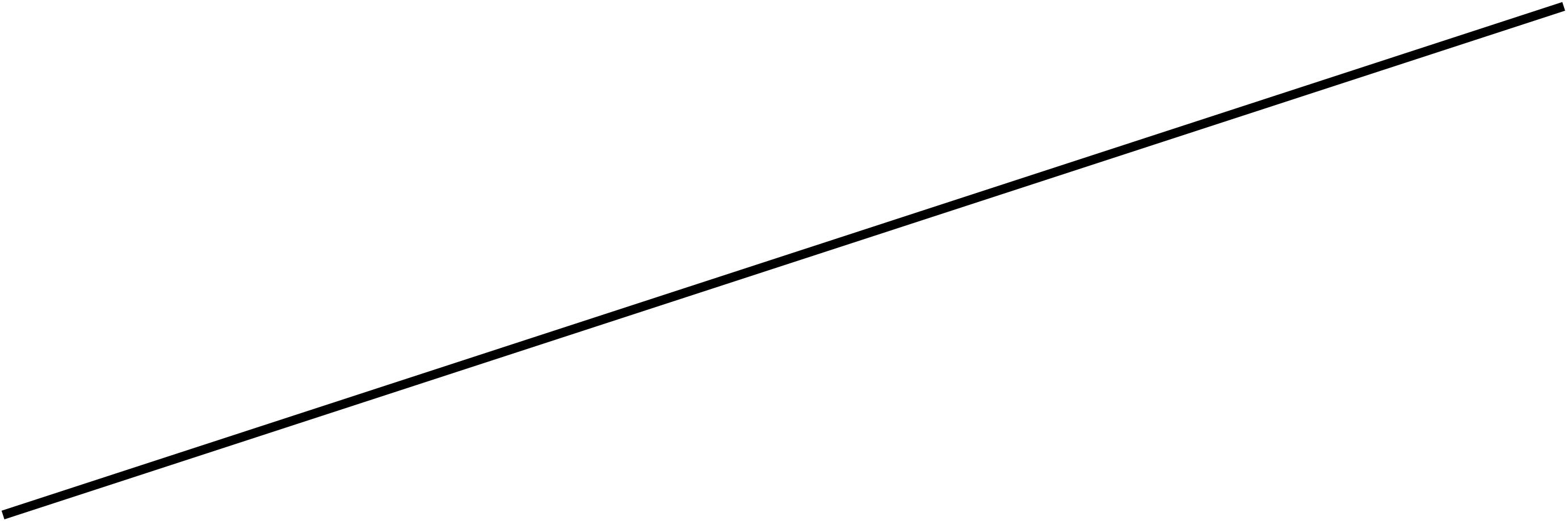


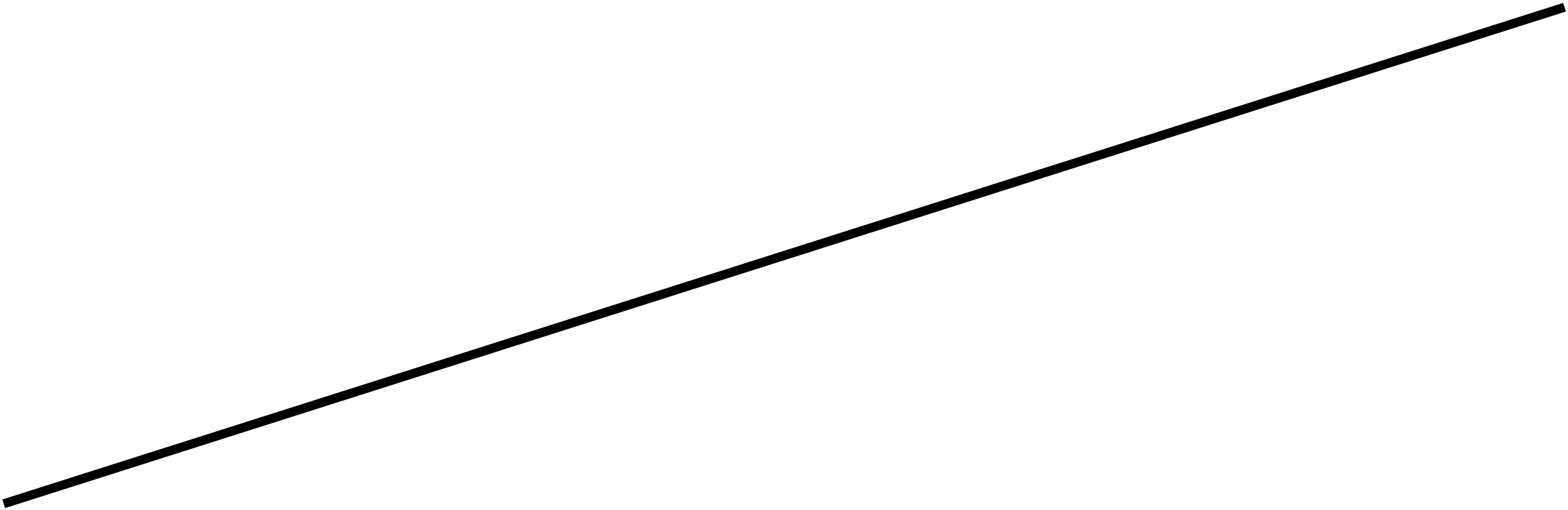
Potential

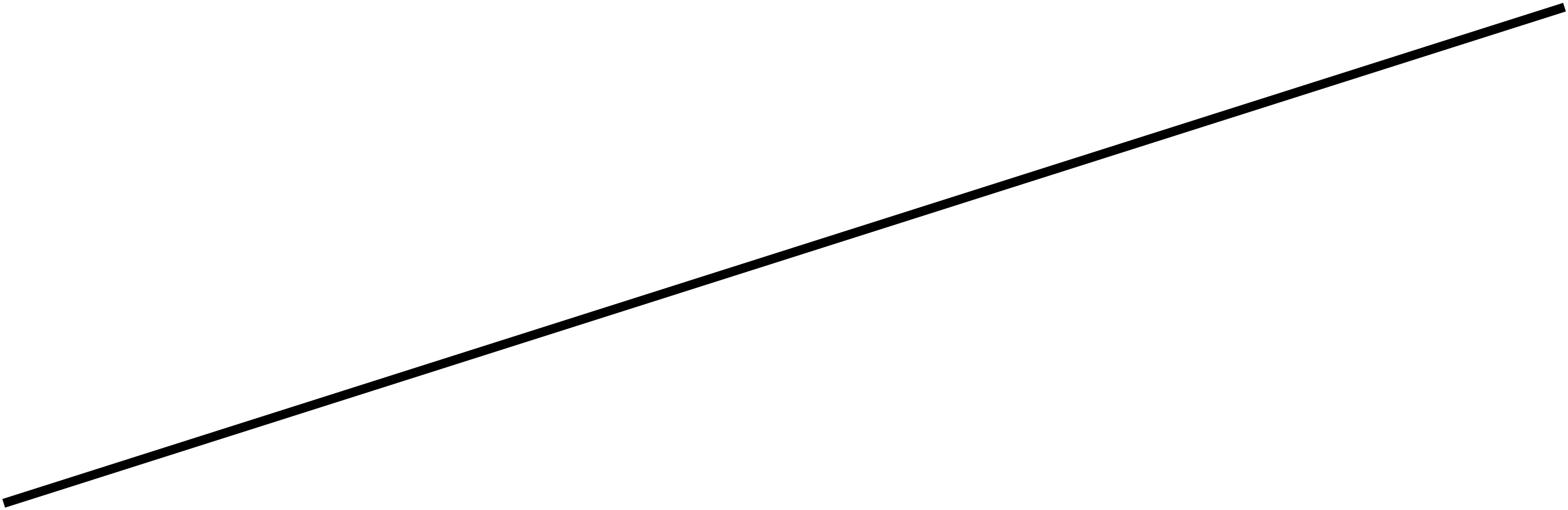
GDP : 7,000



450







A

E

↑

To eliminate an
Inflationary gap, AE
must fall

Equilibrium =



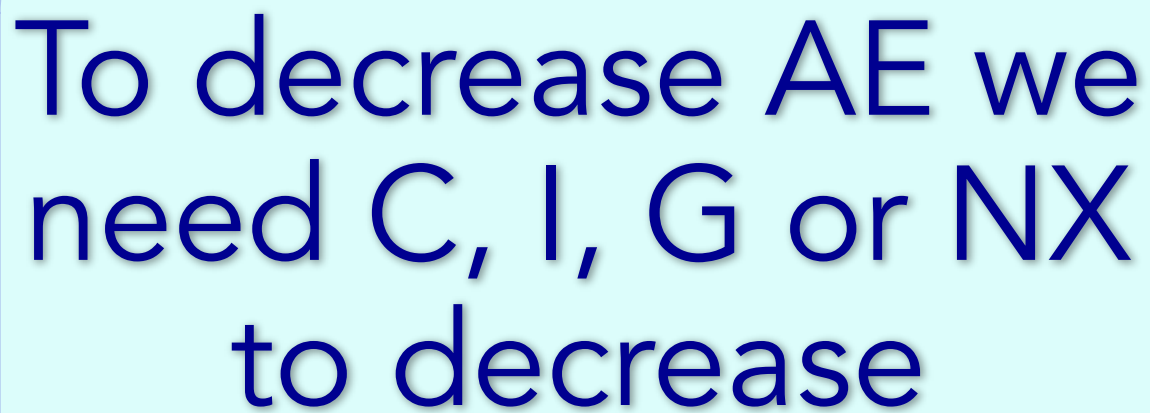
Government Policy

To decrease C : Increase Taxes or decrease Transfers

To decrease I : increase interest rates

Government may decrease spending or

To decrease NX make the dollar stronger



To decrease AE we
need C, I, G or NX
to decrease

