

**A**

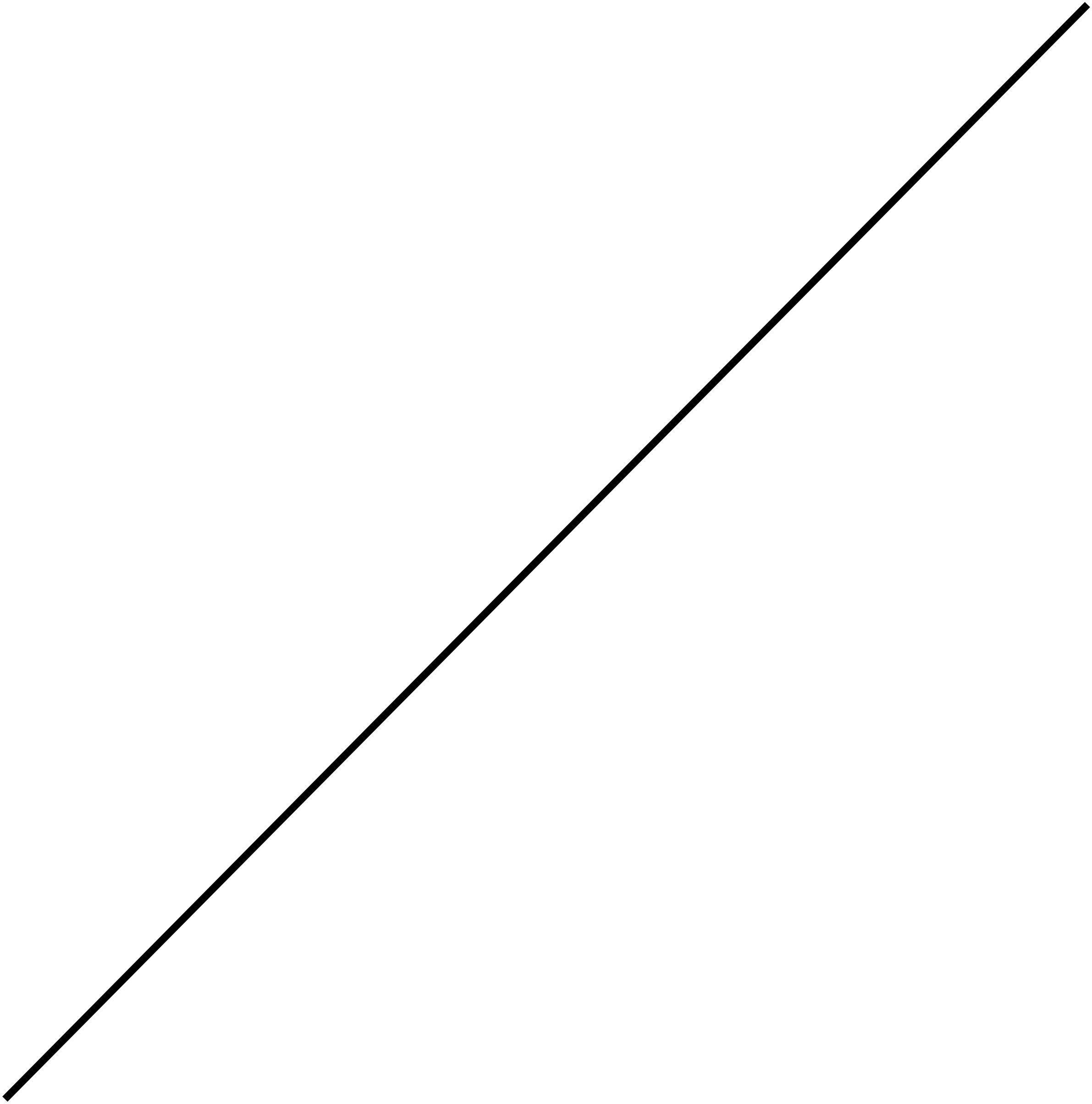
**E**



Equilibrium GDP:

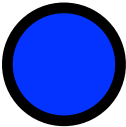
6,000







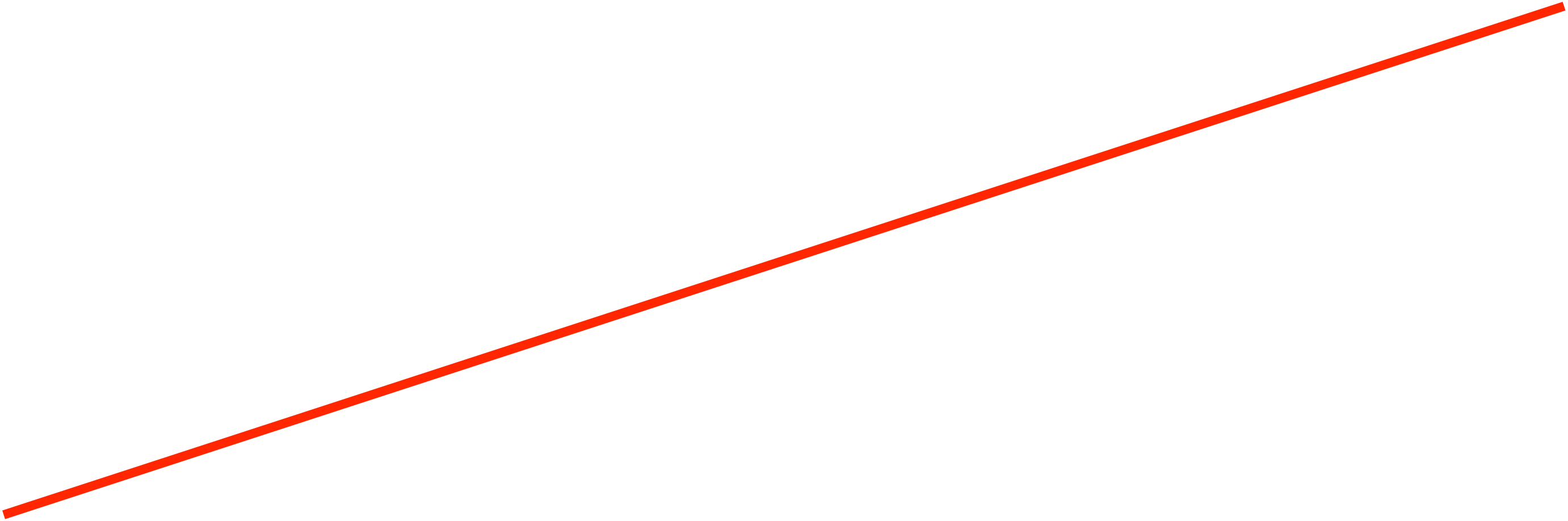
Equilibrium

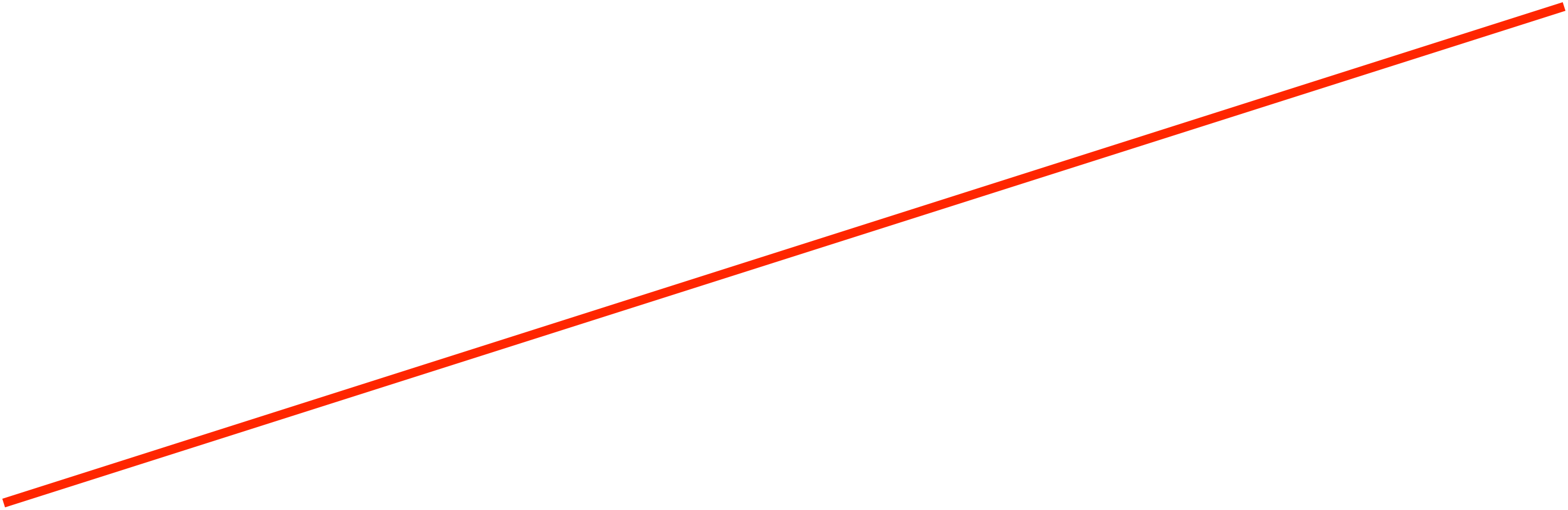


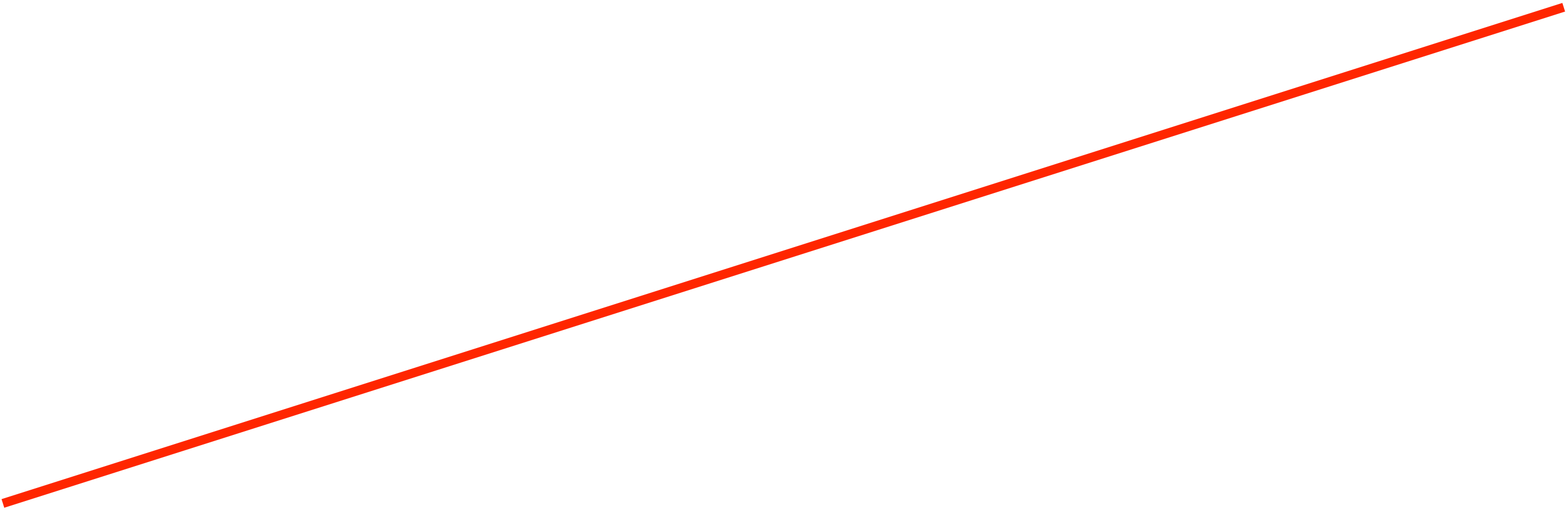
AE0

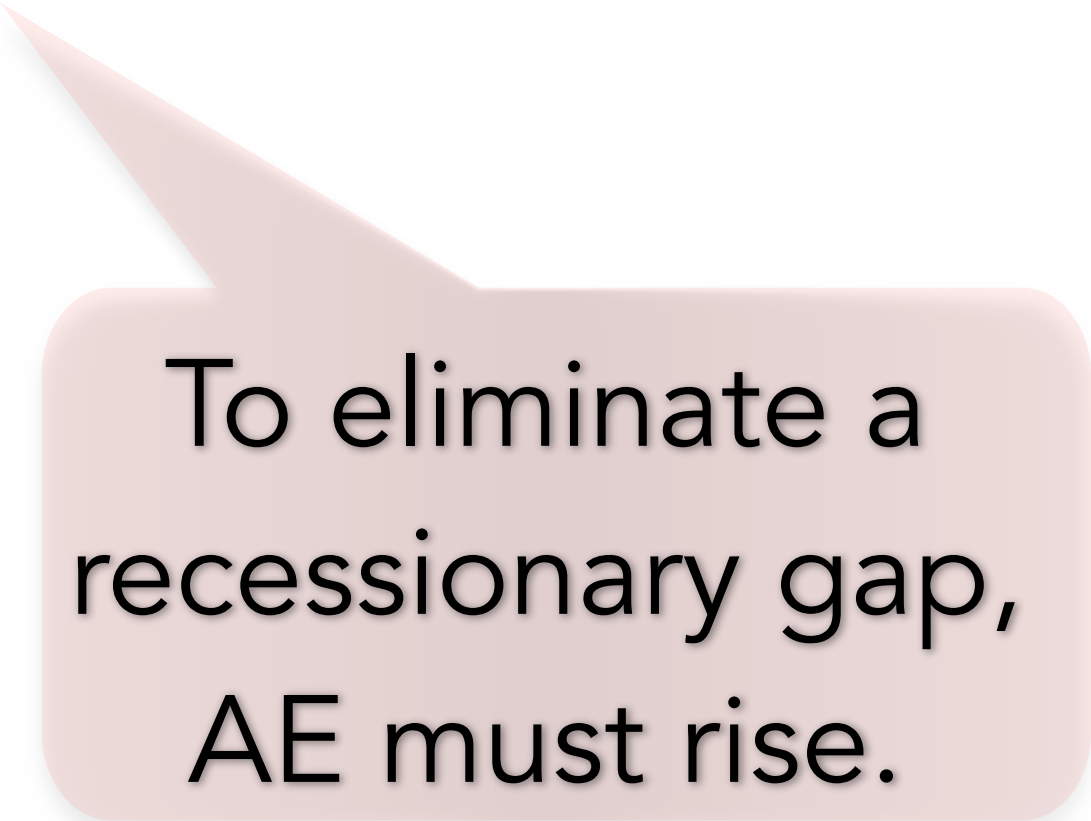
# Potential GDP







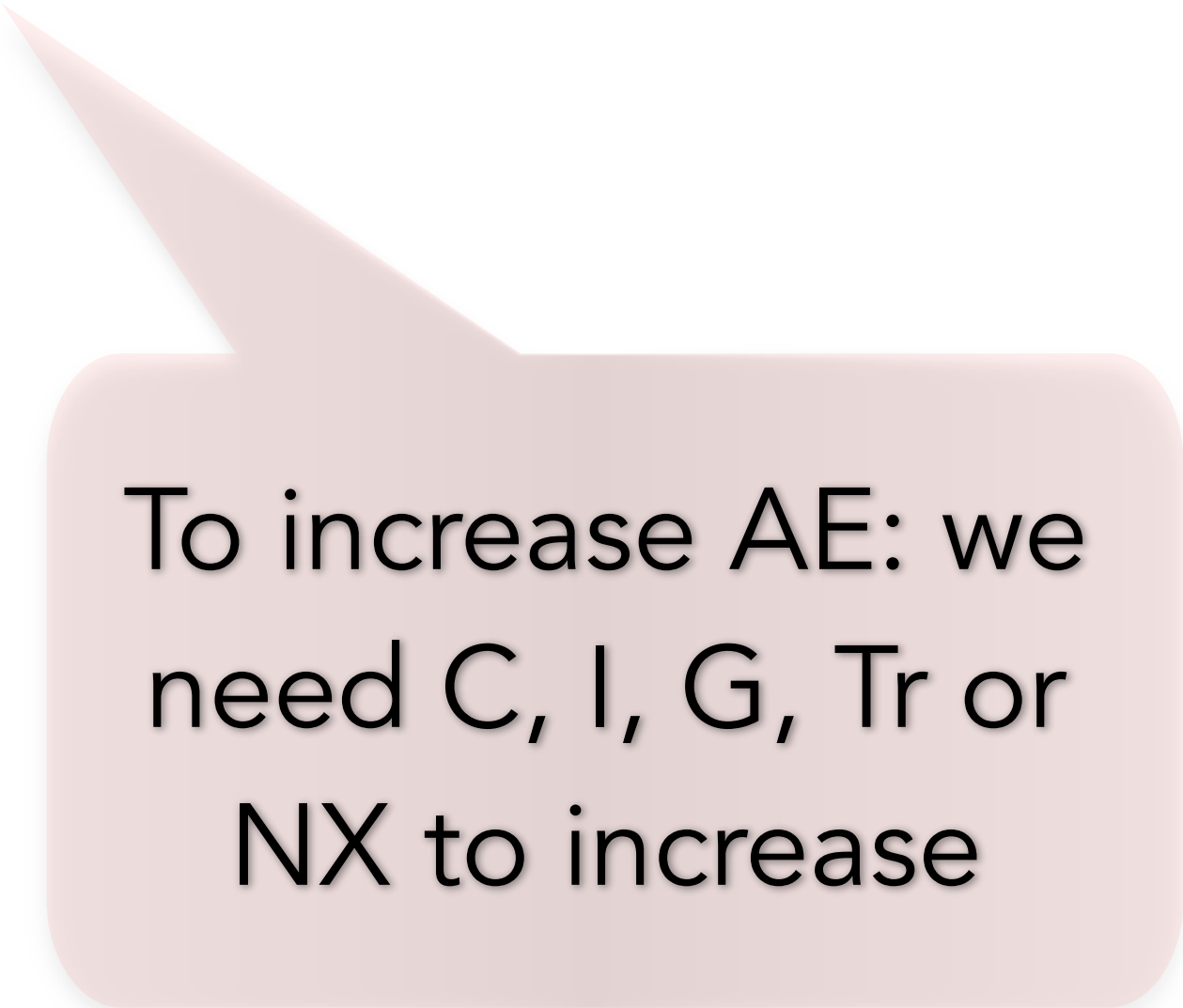




To eliminate a  
recessionary gap,  
AE must rise.

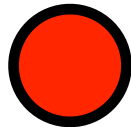


AE<sub>1</sub>



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

