

A

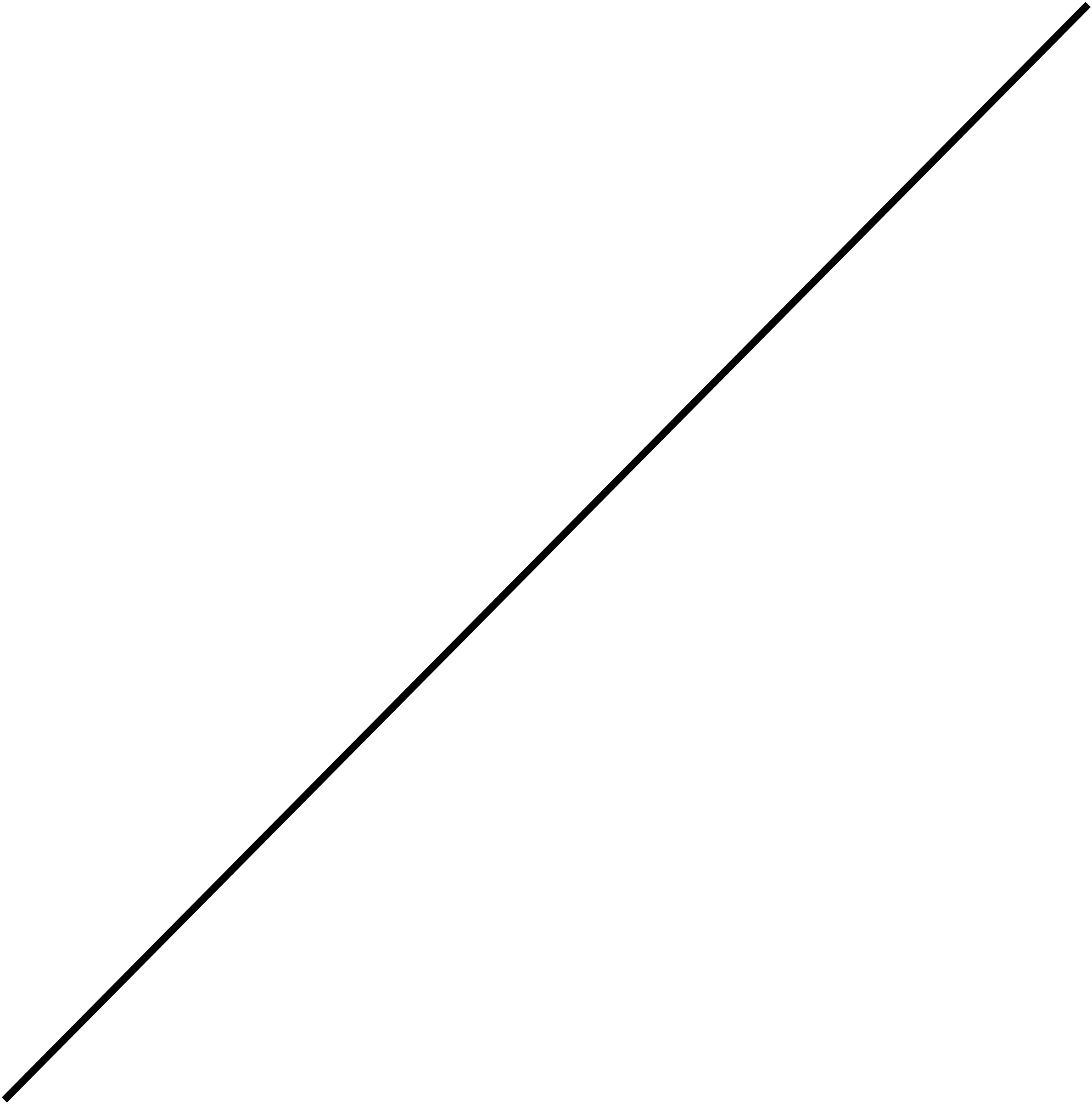
E



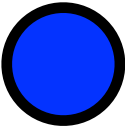
Equilibrium GDP:

6,000





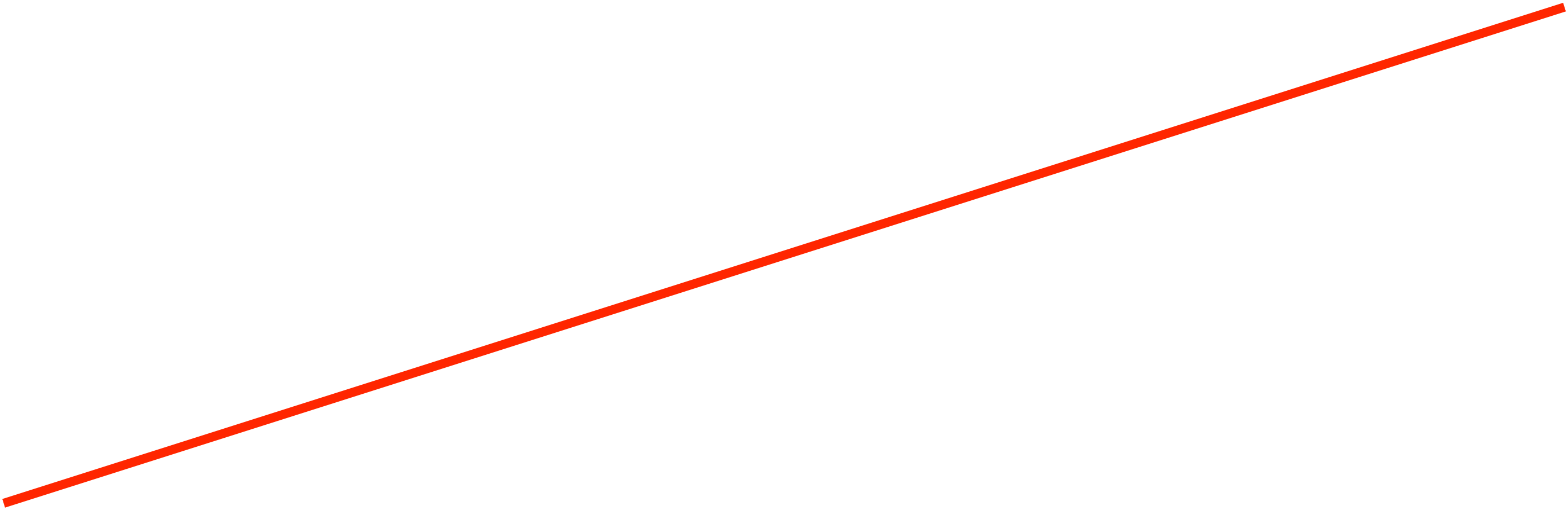
Equilibrium



AE0

Potential GDP





AE₁

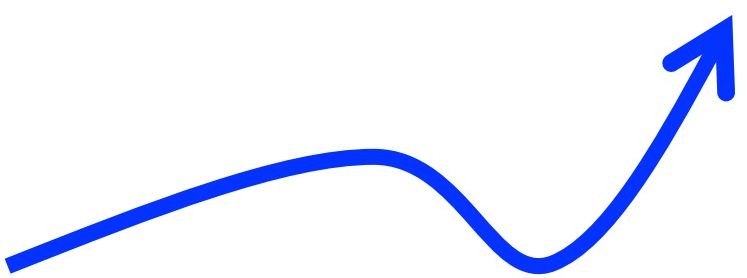


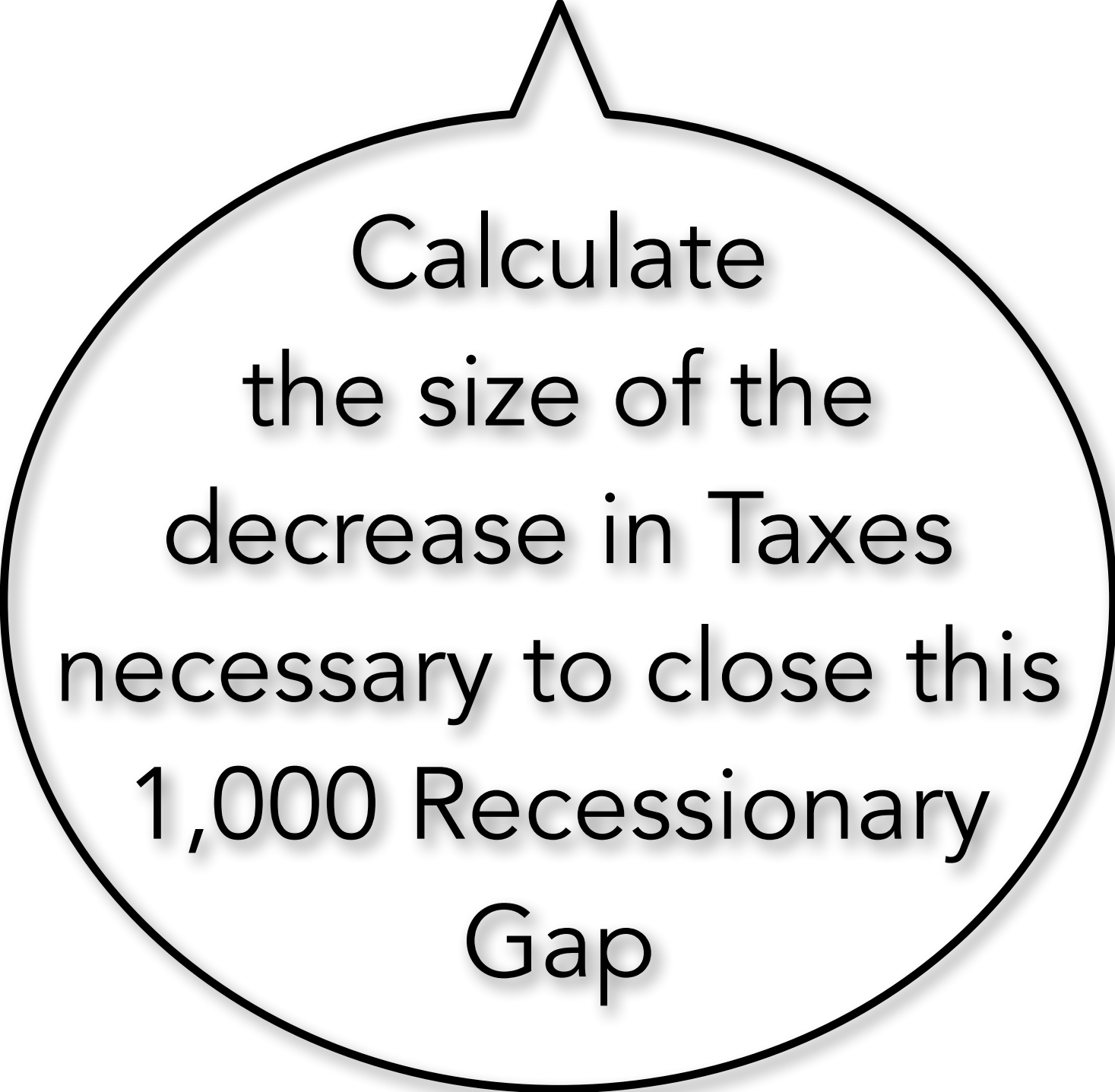
Potential

GDP : 7,000

Recessionary Gap:

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





Calculate
the size of the
decrease in Taxes
necessary to close this
1,000 Recessionary
Gap





S



2



P



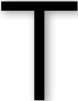






V

















6

R

















6



Y

G

6













2

S



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2





S





























6











U

mm












 $\Delta a = ?$

Fiscal Policy: To close
a Recessionary Gap
Decrease Taxes in
order to increase
Consumption

Fiscal Policy: To close a Recessionary Gap
Decrease Taxes in order to increase Consumption

Calculate the size of the decrease in Taxes necessary to close this 1,000 Recessionary Gap

