

1. GDP = ?

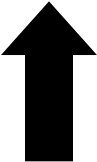
2. Is total spending larger than/smaller than/equal to Output?

3. Do Inventories fall, rise or remain unchanged?

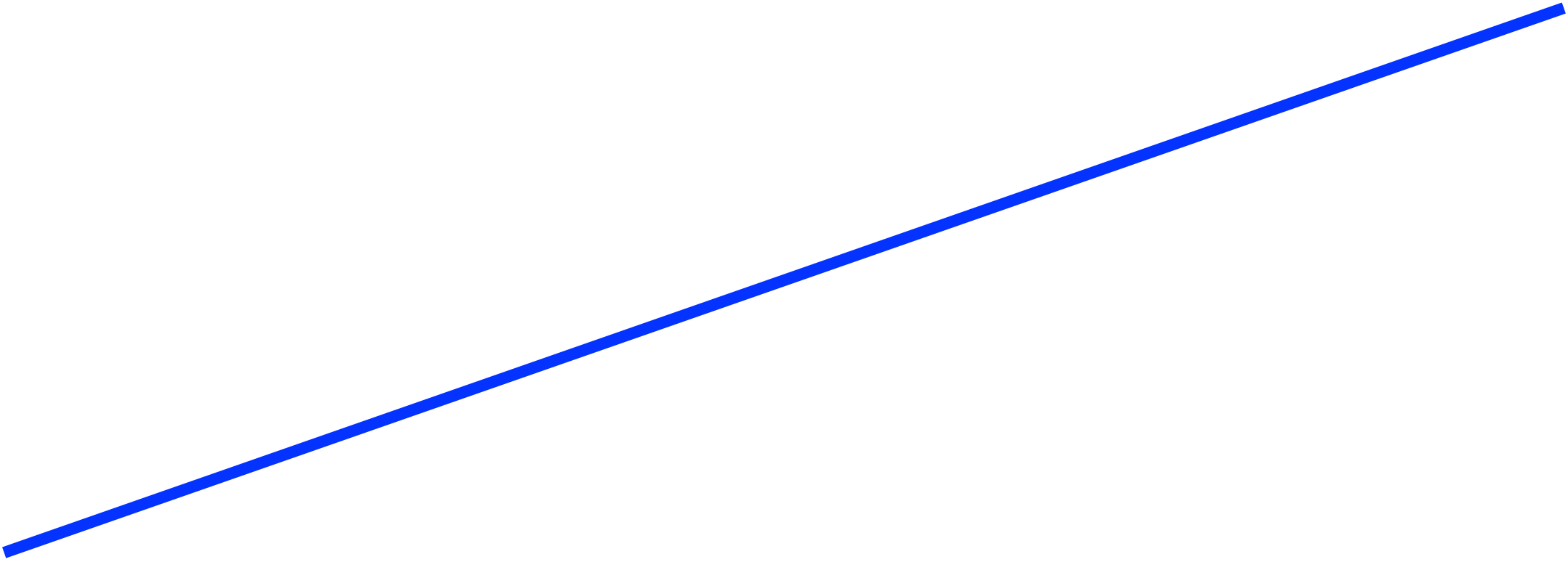
4. Does the economy experience a recessionary/inflationary gap?

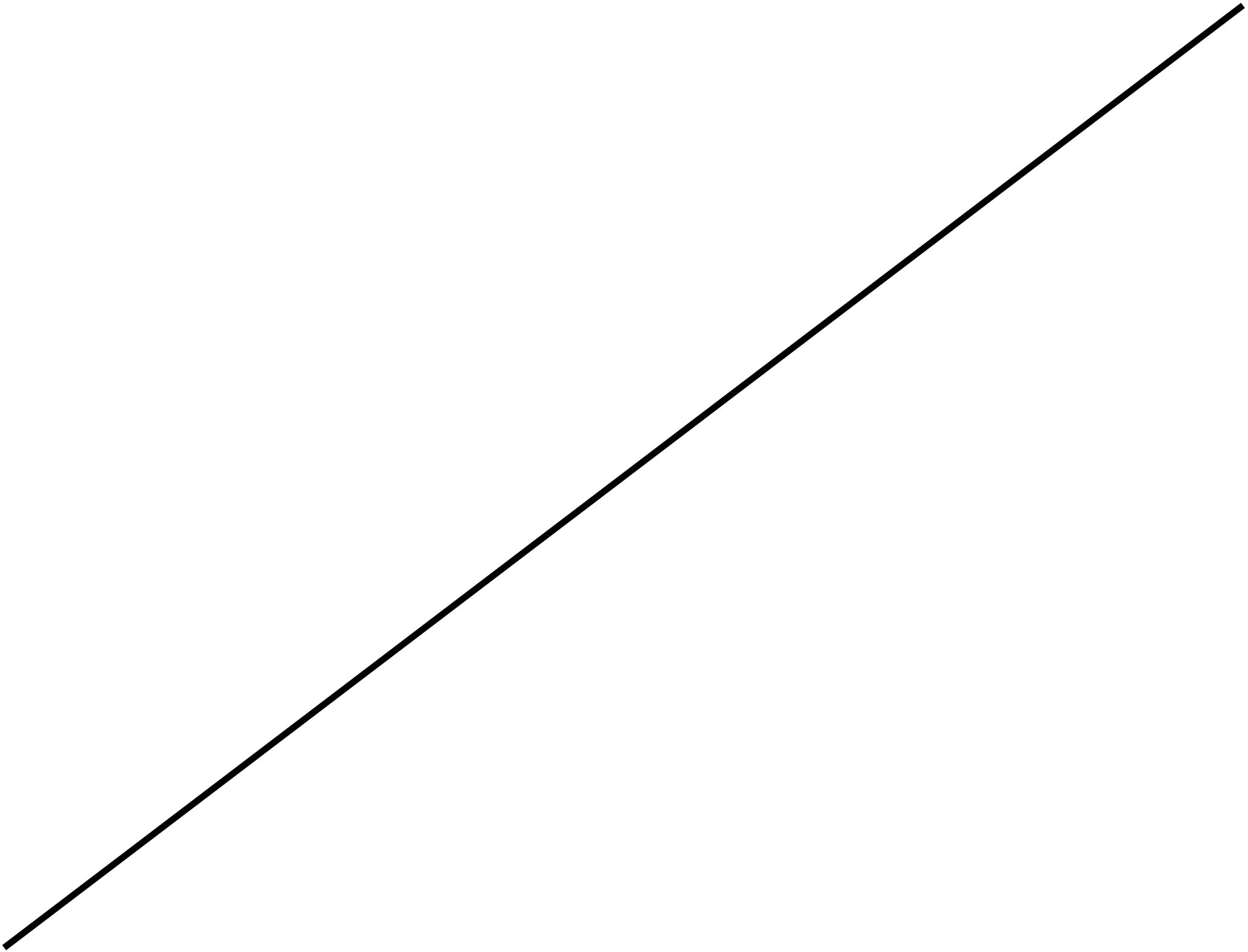
5. What is the size of the gap?

6. How can the gap be closed?



Assume the
Economy is at
Equilibrium

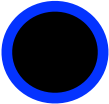


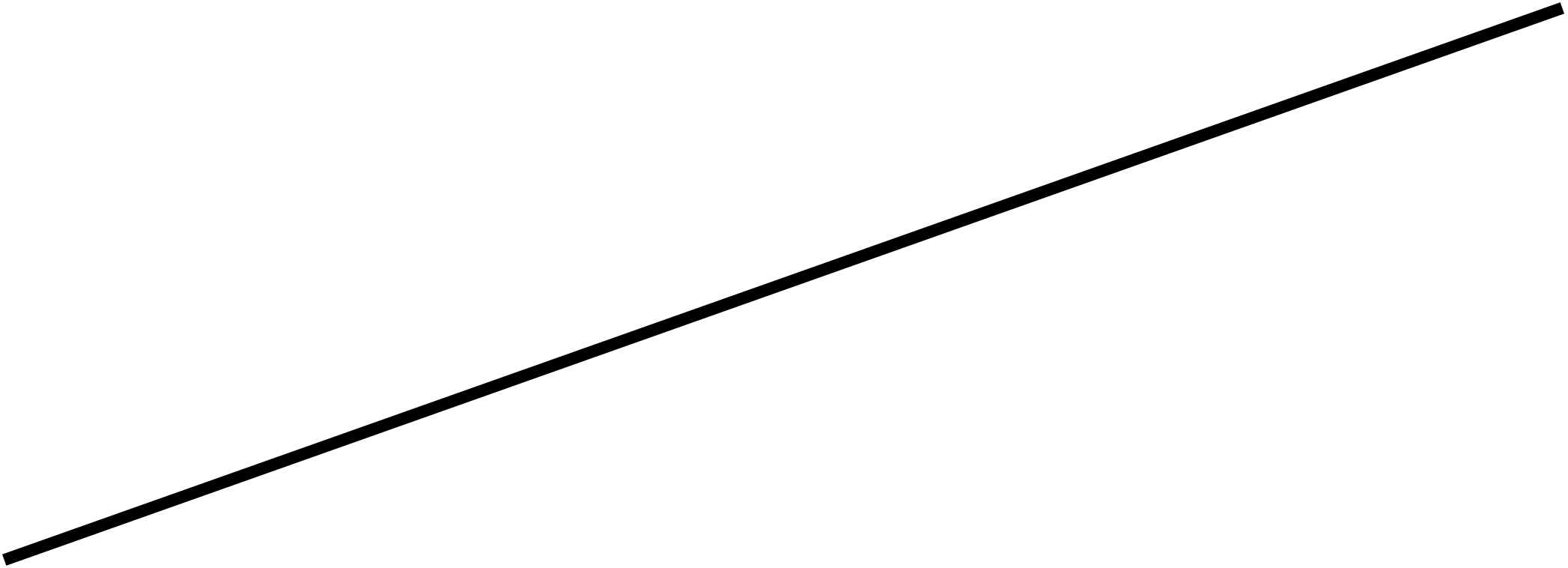


AE₀

**Potential
GDP**









GDP=4,000

AE_1

45°

$$AE = 4,000$$

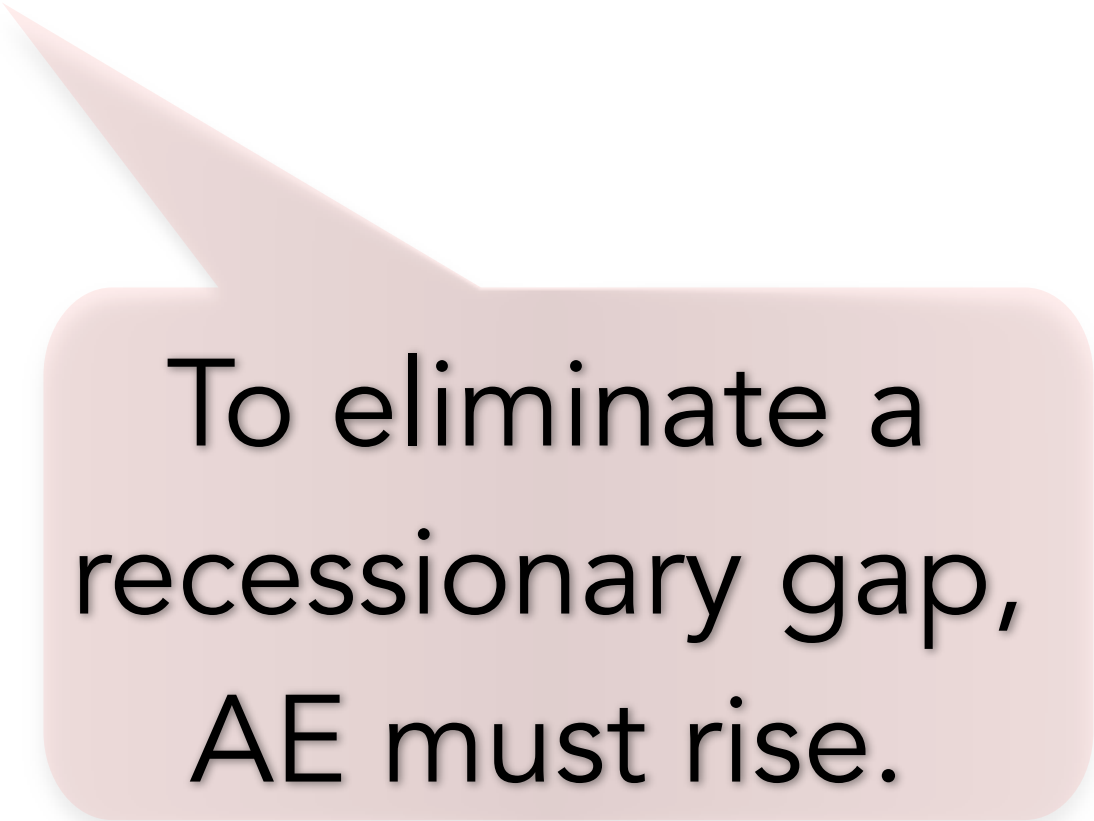
GDP=5,000





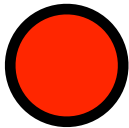


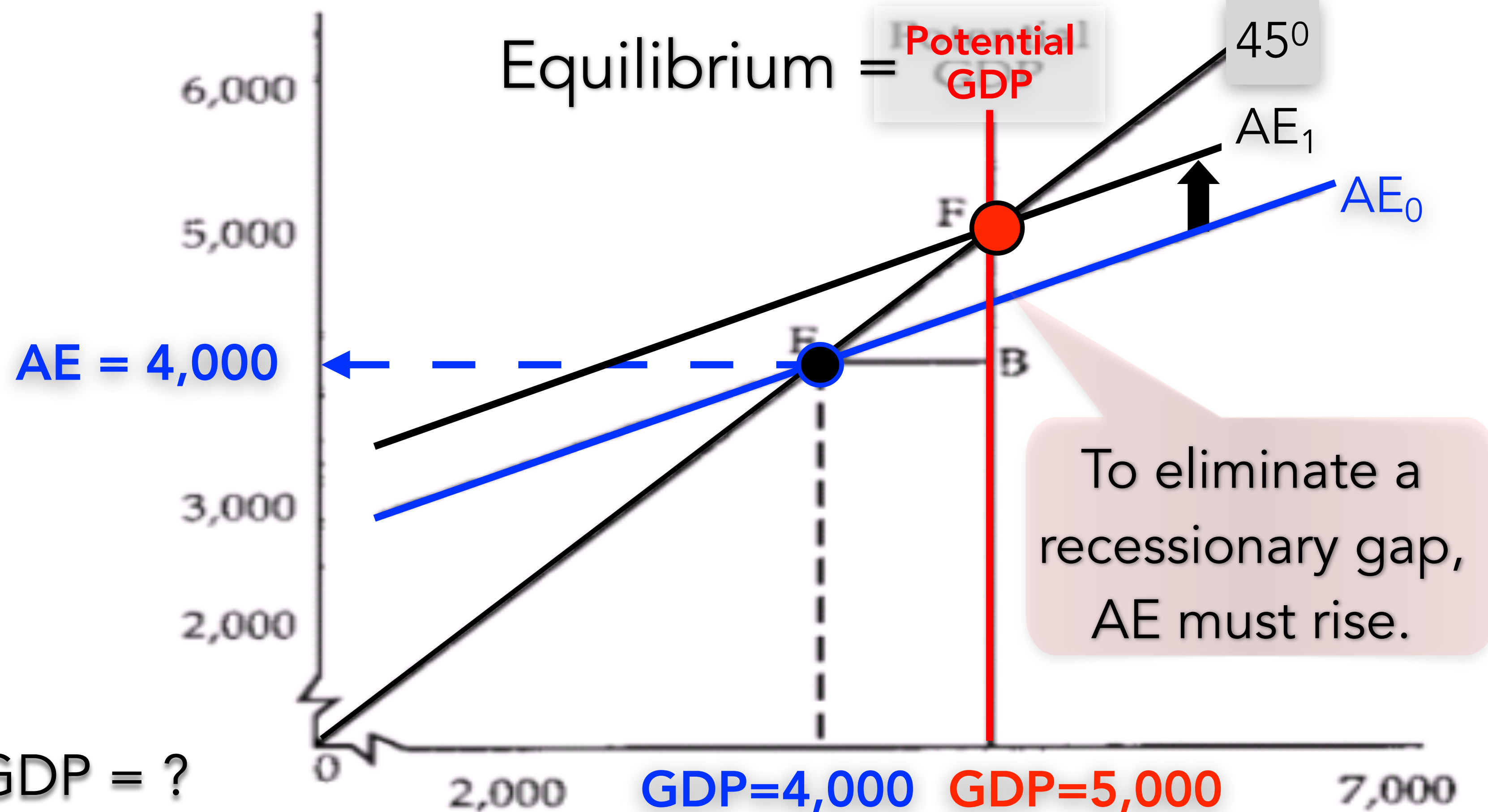
$$\text{Gap} = 5,000 - 4,000 = 1,000$$



To eliminate a
recessionary gap,
AE must rise.

Equilibrium =





1. GDP = ?
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? $\text{Gap} = 5,000 - 4,000 = 1,000$
6. How can the gap be closed?

