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The Government must increase both Taxes and
Government Spending by 1,000 in order to close a
1,000 Recessionary Gap

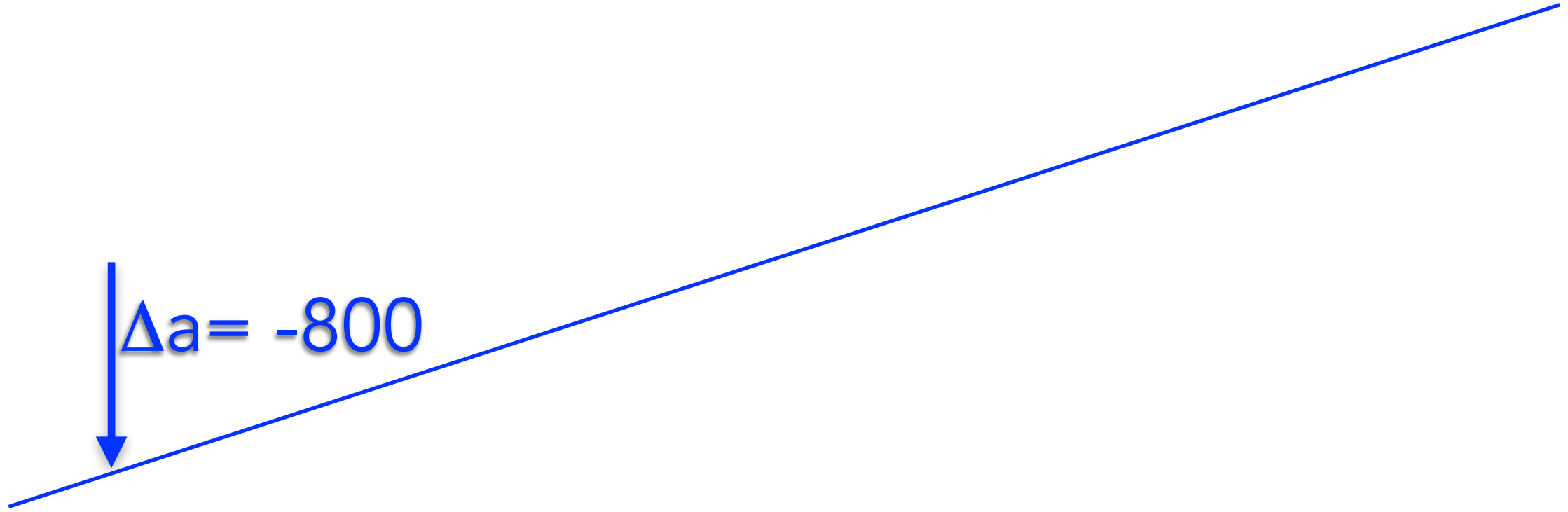
If taxes increase by 1,000, Disposable Income decrease by 1,000 and Consumption decrease by $1,000 \times \text{MPC} = -1,000 \times 0.8 = -800$

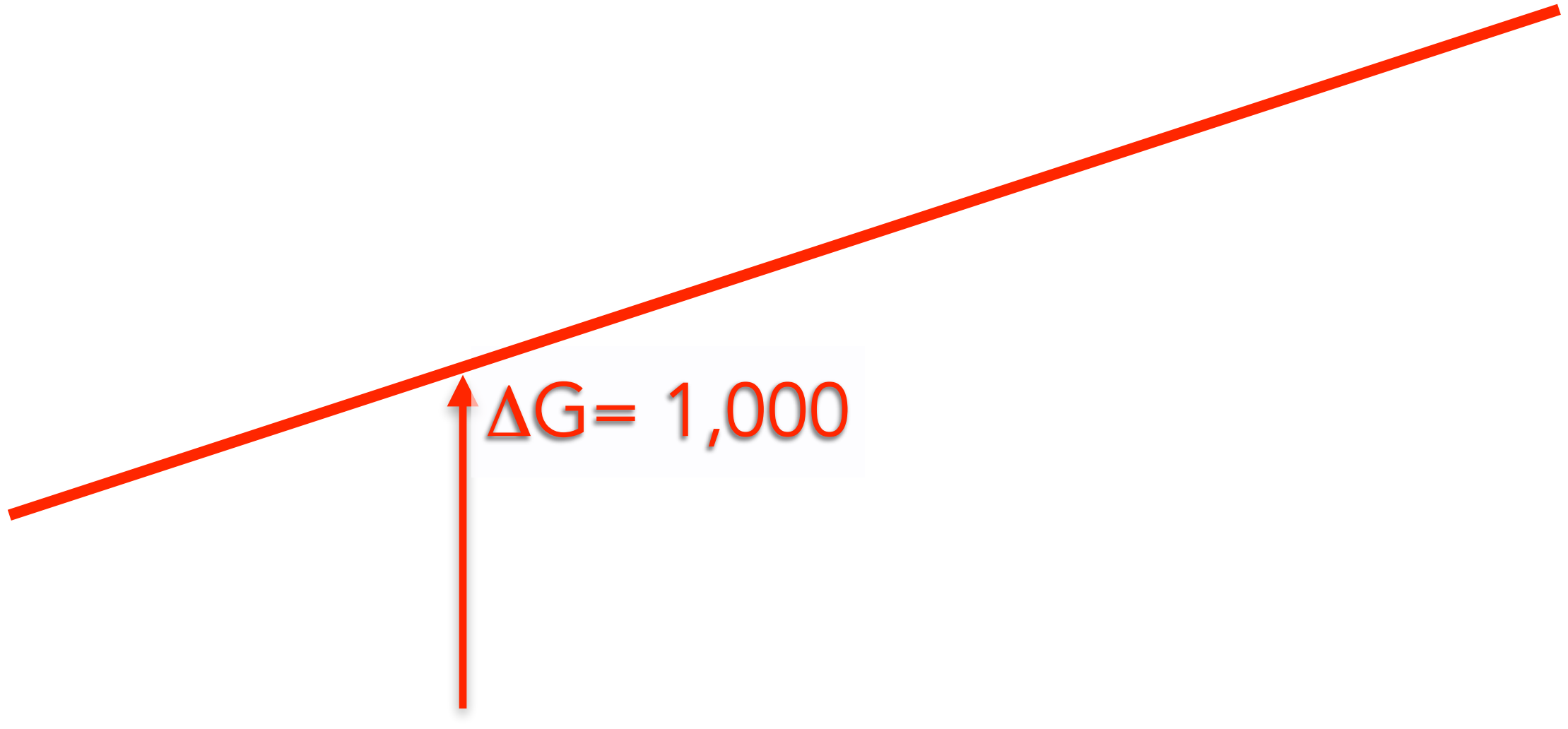
$\Delta a = -800$ The AE line shifts down by 800

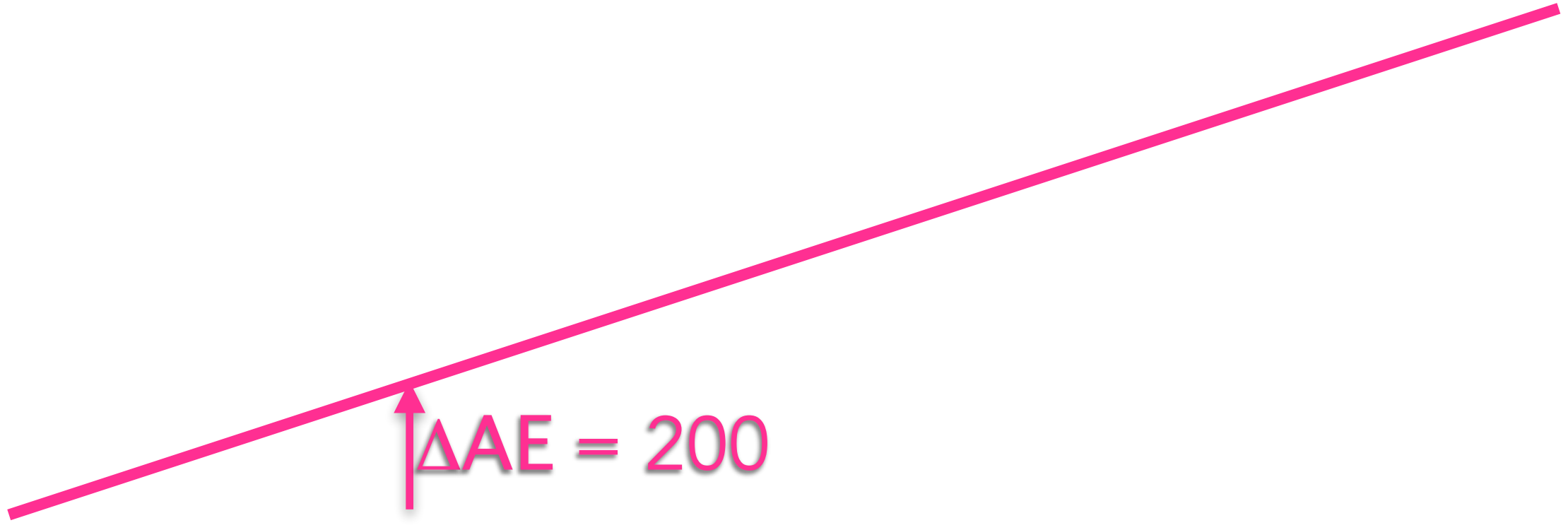
If Government Spending increase by 1,000

$\Delta G = 1,000$, the AE line shifts up by 1,000

The net effect of increasing G and T by 1,000
is a net increase of 200: the AE line shifts up
by 200







Fiscal Policy: To close a Recessionary Gap without increasing the Deficit the government must increase both Government Spending and Taxes by the same amount

Fiscal Policy: To close a Recessionary Gap **without increasing the Deficit** the government must **increase both** Government Spending and Taxes by the **same** amount

The Government must increase both Taxes and Government Spending by **1,000** in order to close a **1,000** Recessionary Gap

If taxes increase by 1,000, Disposable Income decrease by **1,000** and Consumption decrease by $1,000 \times \text{MPC} = -1,000 \times 0.8 = -800$
 $\Delta a = -800$ The AE line shifts down by 800

If Government Spending increase by **1,000**
 $\Delta G = 1,000$, the AE line shifts up by 1,000

The net effect of increasing G and T by 1,000 is a net increase of **200**: the AE line shifts up by 200

