### We know we want Equilibrium GDP to increase by 1,000: $\Delta Y = 1,000$

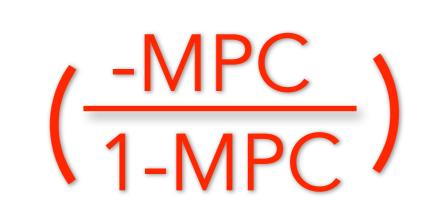
# Effect on Consumption:

## Effect on the Budget Deficit:

#### $\Delta$ Deficit = $\Delta G - \Delta T$

#### The Tax Multiplier





# 0.88.0-1







1,000  $\Delta C$ 

 $\Delta$  Deficit = 0 - (-250) = +250

# Assume: MPC = 0.8

Recessionary Gap: 7,000 - 6,000 = 1,000

1,000  $\Delta Y =$ 



 $\Delta T = 1,000/-4$ 

# The Government must decrease Taxes by 250 in order to close a 1,000 Recessionary Gap

# A 250 decrease in Taxes will increase the Deficit by 250

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

We know we want Equilibrium GDP to increase by 1,000:

$$\Delta Y = 1,000$$

Effect on Consumption:

$$\Delta C = 1,000$$

Effect on the Budget Deficit:

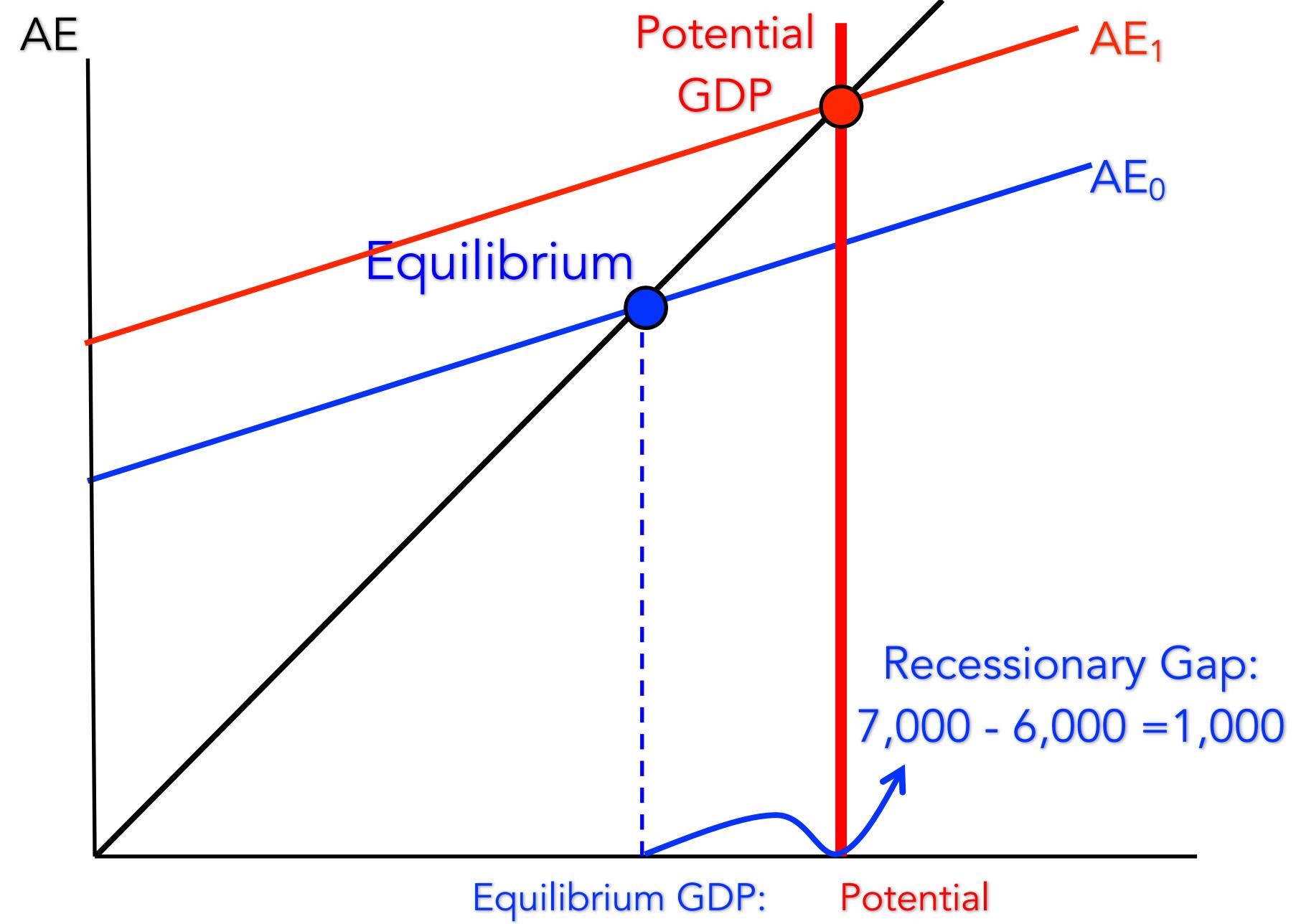
$$\Delta T = 1,000/-4$$

$$\Delta T = -250$$

$$\Delta$$
 Deficit = 0 - (-250) = +250

The Government must decrease Taxes by 250 in order to close a 1,000 Recessionary Gap

A 250 decrease in Taxes will increase the Deficit by 250



6,000 GDP: 7,000