

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?

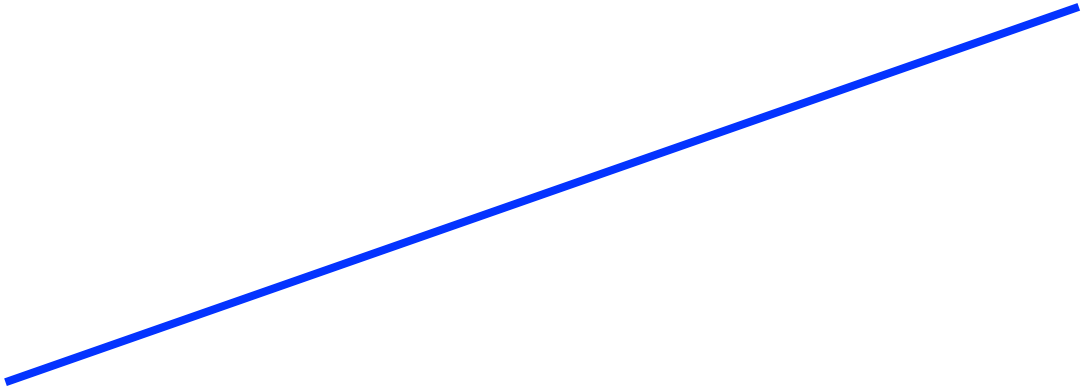
5. What is the size of the gap?

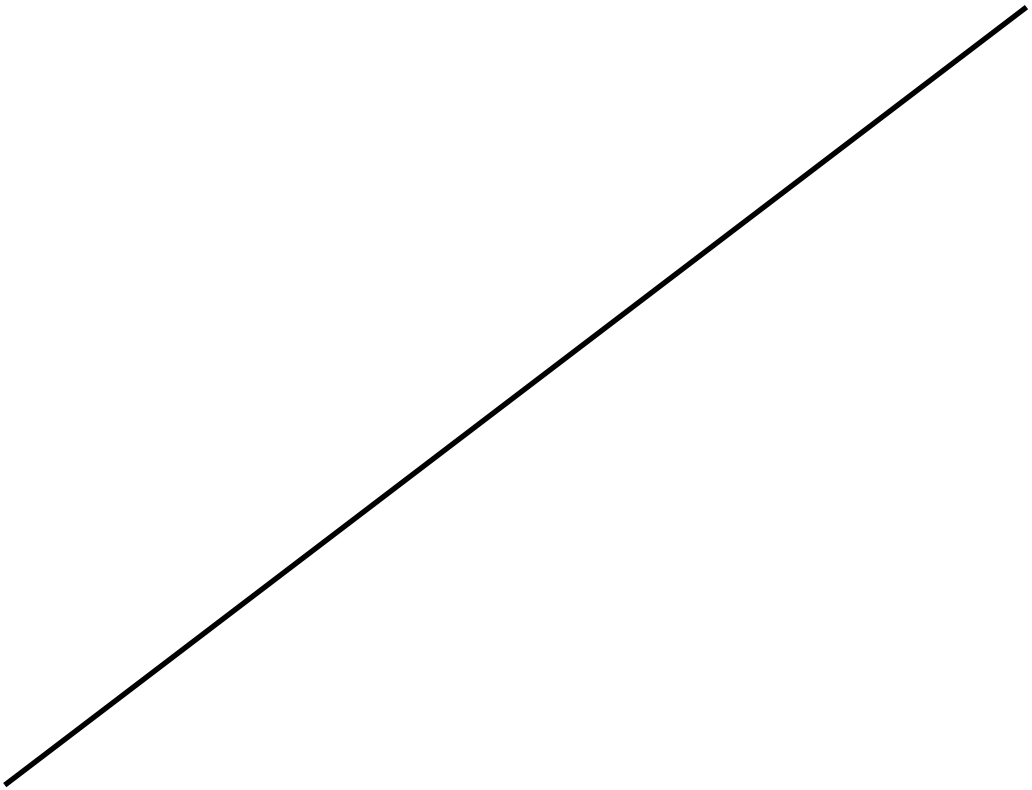
6. How can the gap be closed?





Assume the  
Economy is at  
Equilibrium





AE<sub>0</sub>

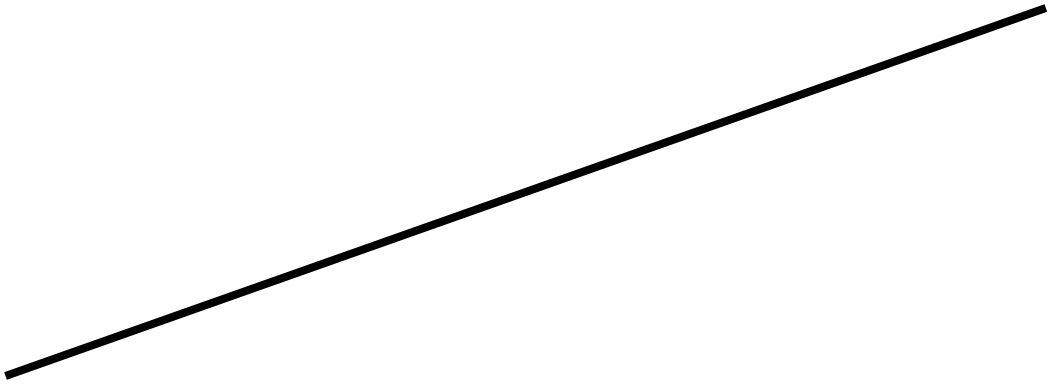
**Potential  
GDP**













**GDP=4,000**

AE<sub>1</sub>

450

$$AE = 4,000$$

**GDP=5,000**

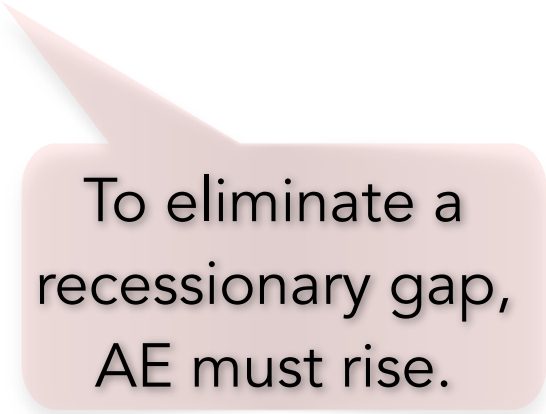








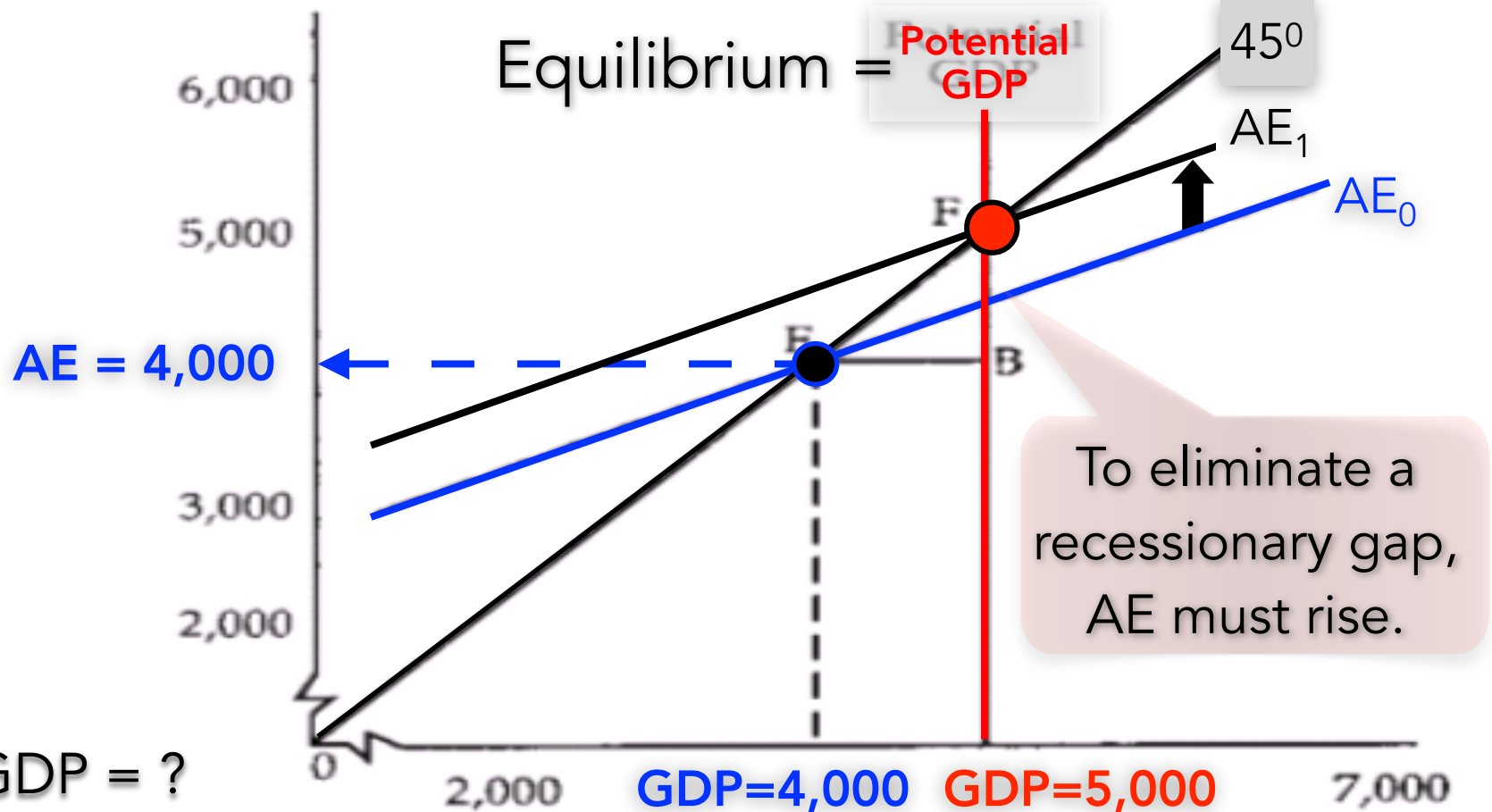
$$\text{Gap} = 5,000 - 4,000 = 1,000$$



To eliminate a  
recessionary gap,  
AE must rise.

Equilibrium =





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6. How can the gap be closed?

