



To close an **Inflationary** Gap, Aggregate Expenditures and Aggregate

Demand must **decrease**

1. Increase Taxes and/or Decrease Transfers to decrease Consumption

2. Decrease Government Spending

3. Increase interest rates to increase investment

Contractiōnary Policy

## Contractionary Policy

To close an **Inflationary** Gap, Aggregate Expenditures and Aggregate Demand must **decrease**

1. **Increase** Taxes and/or Decrease Transfers to decrease Consumption
2. **Decrease** Government Spending
3. **Increase** interest rates to increase investment

