

Which AE line will cause a
recessionary gap?


Which AE line will cause
an Inflationary gap?



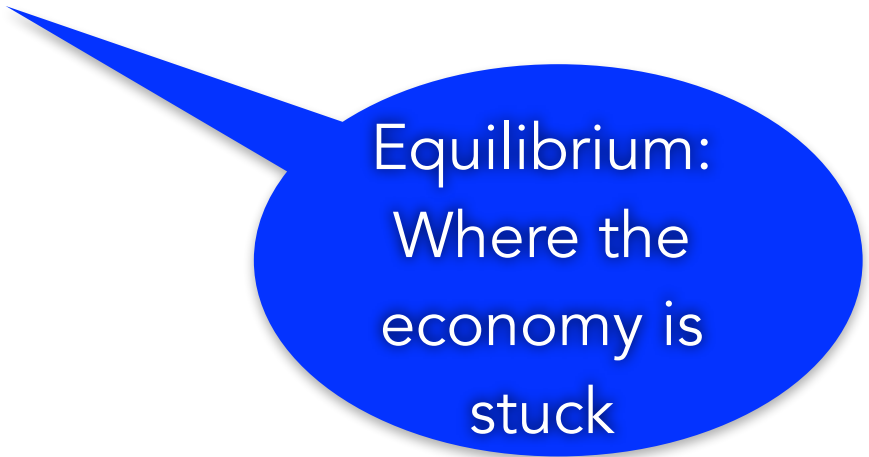
Actual GDP Lower
than Potential GDP



Actual GDP Higher
than Potential GDP



Equilibrium:
Where the
economy is
stuck



Equilibrium:
Where the
economy is
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Equilibrium:
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stuck

Real Expenditure

Potential
GDP

45°

1

2

3

Equilibrium:
Where the
economy is
stuck

Which AE line will cause
an Inflationary gap?

Actual GDP Lower than Potential GDP Actual GDP Higher than Potential GDP

