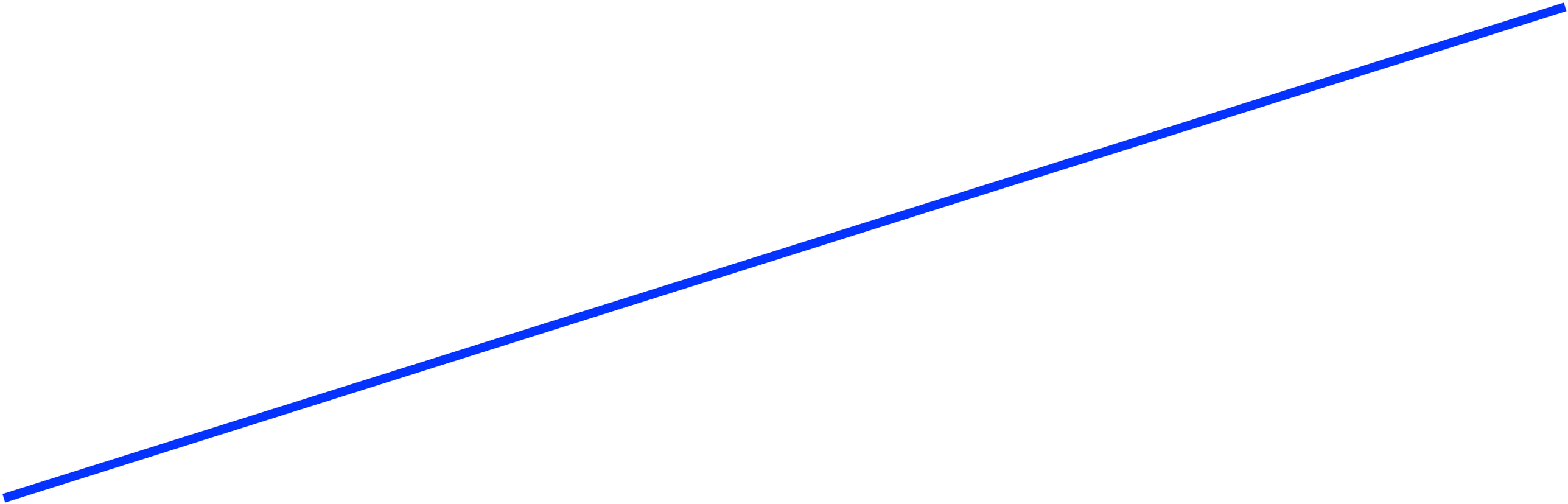
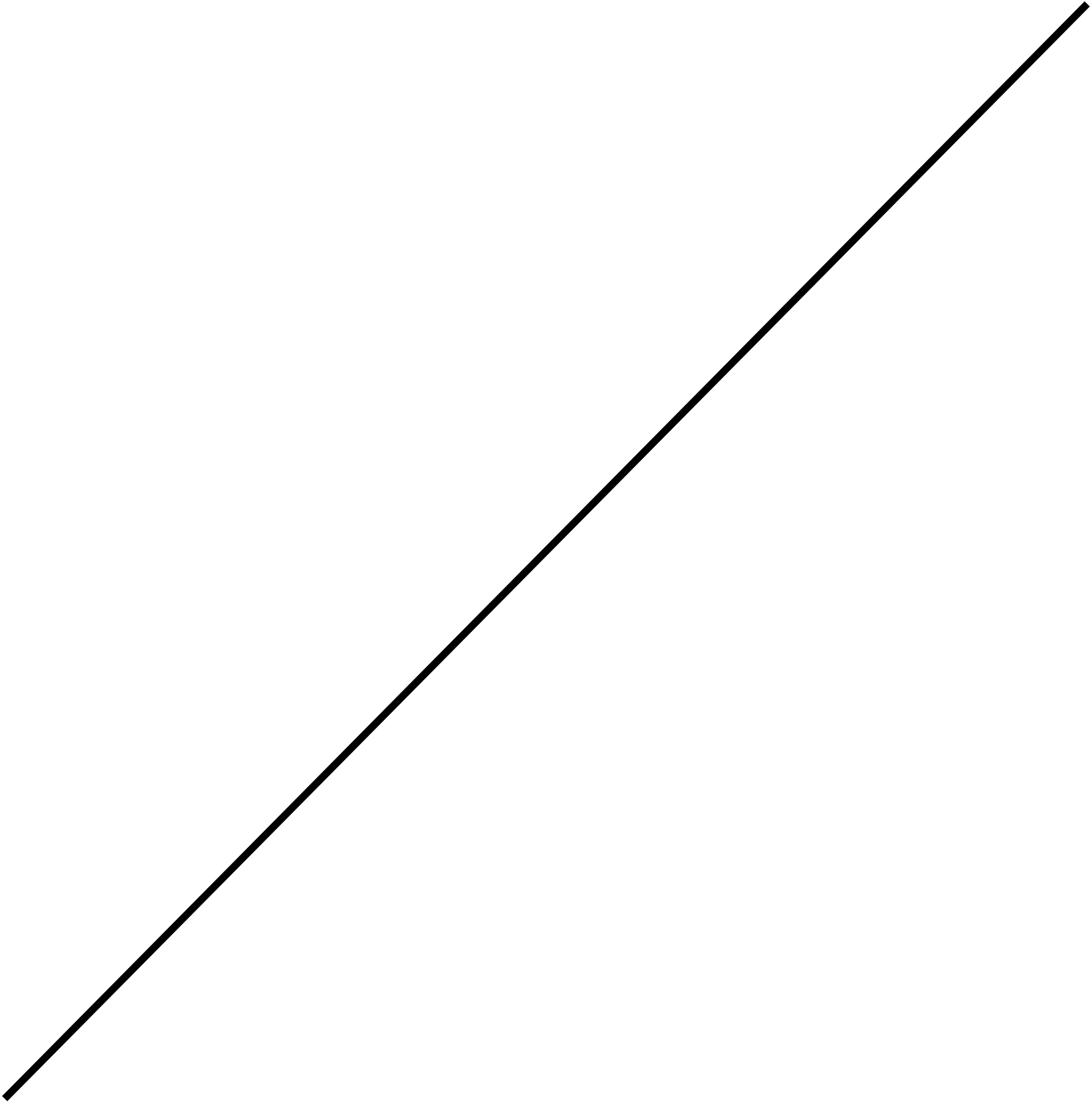
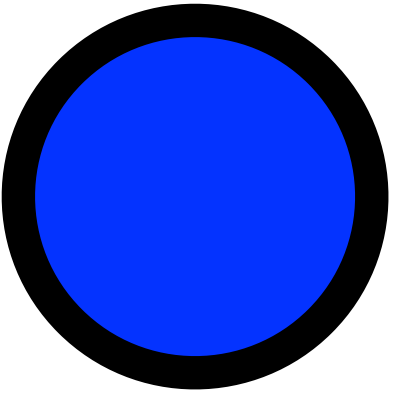


AE

Equilibrium GDP: 9,000



Equilibrium

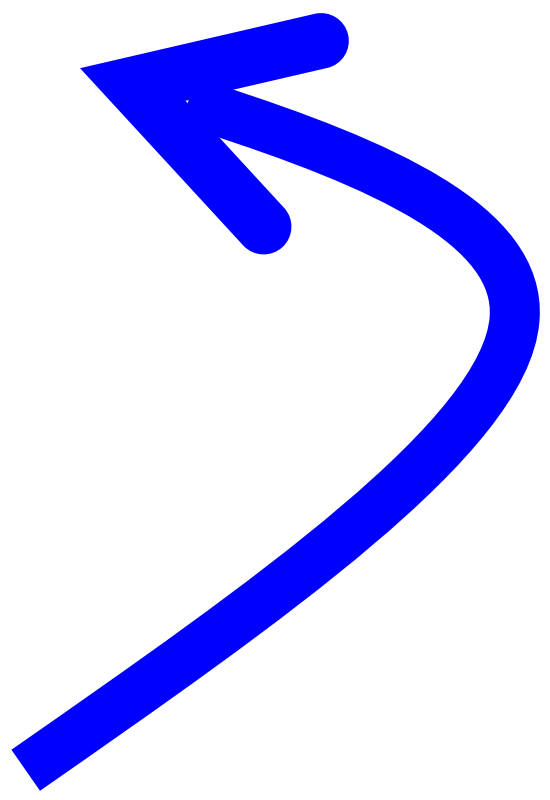


AE

Potential GDP

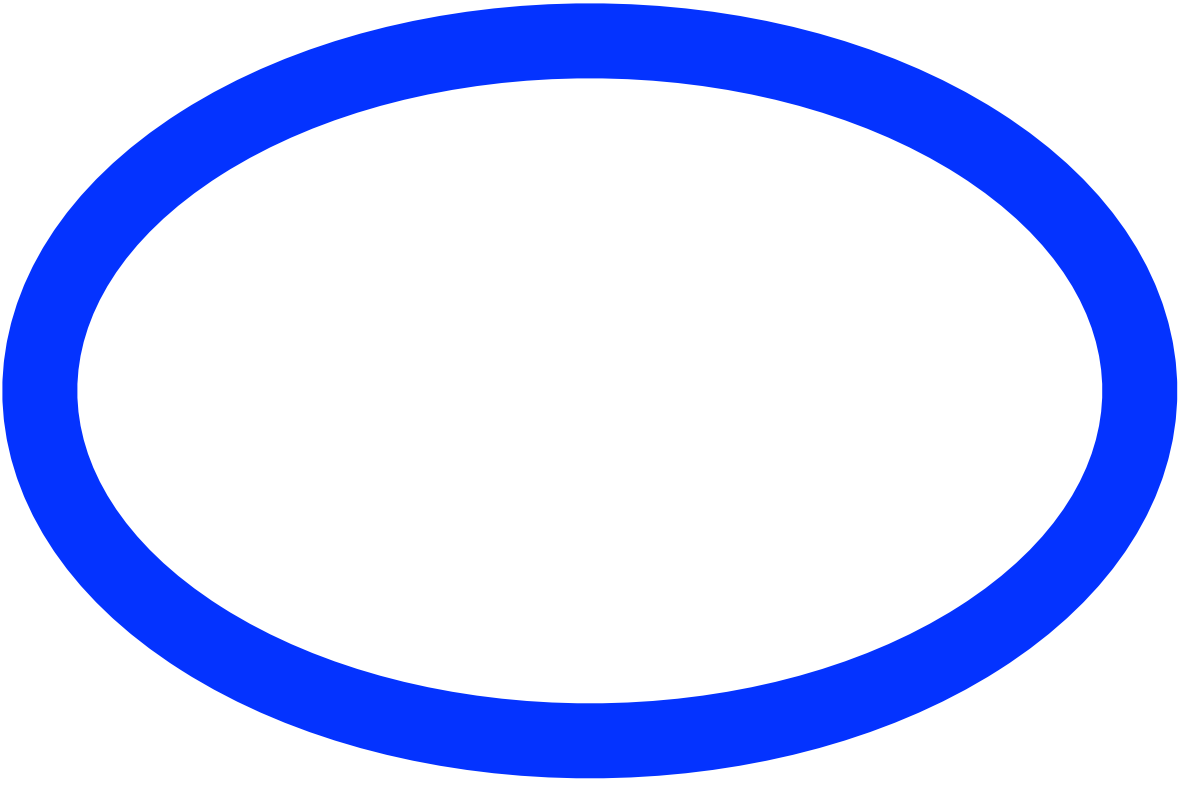
Potential

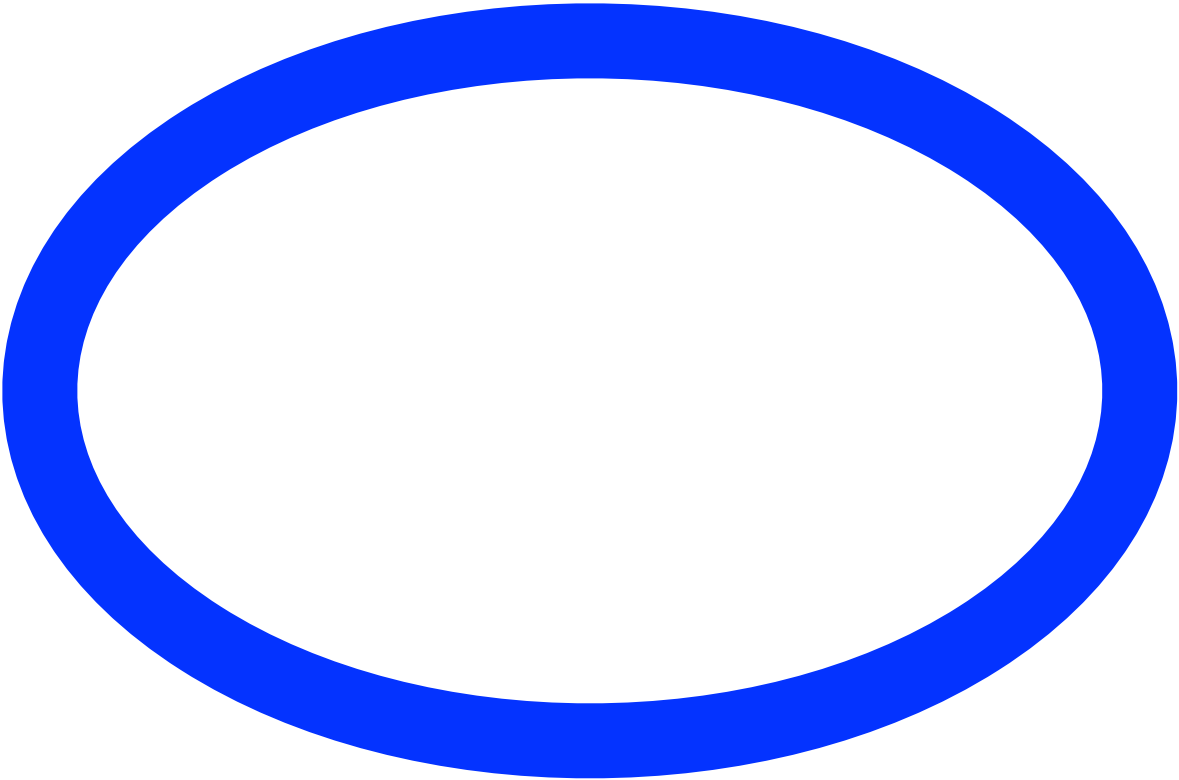
GDP : 7,000

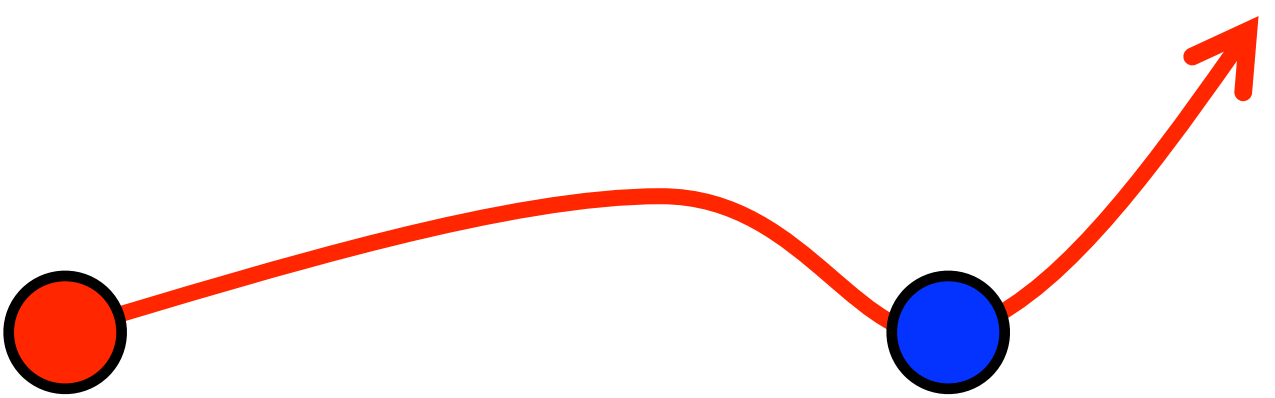


45º

$7{,}000 - 9{,}000 = -2{,}000$







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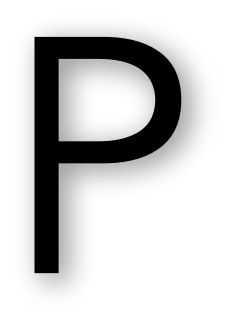

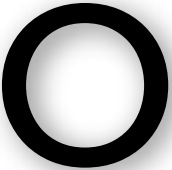

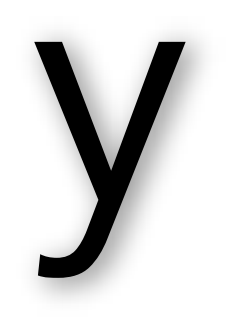
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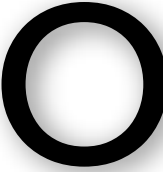

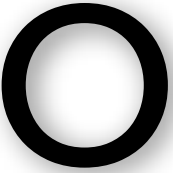

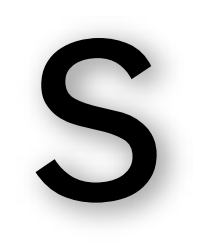
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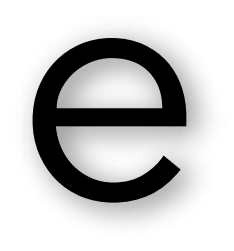

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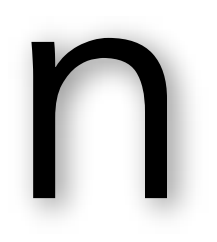

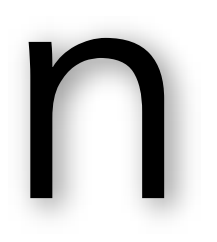

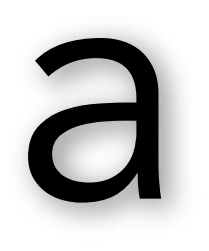
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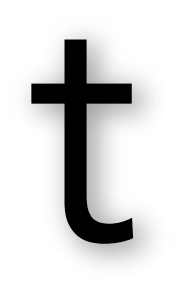

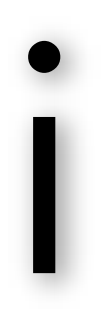

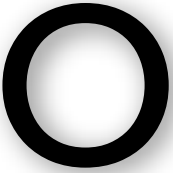

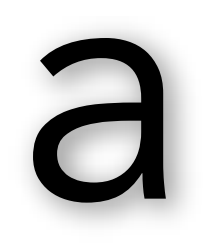
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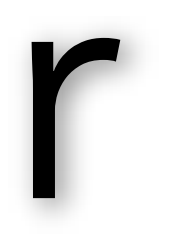

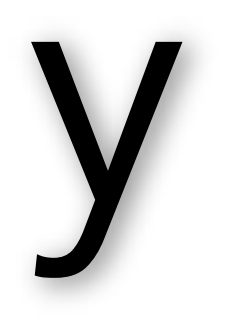
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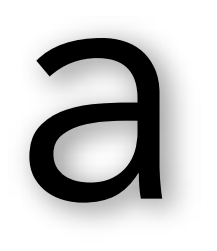
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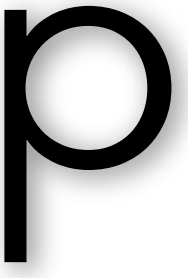

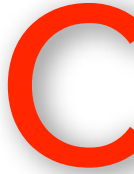

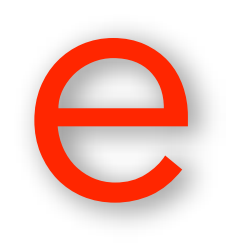

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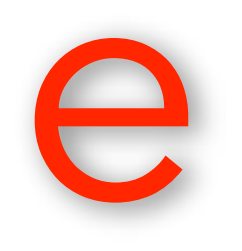

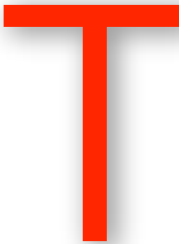

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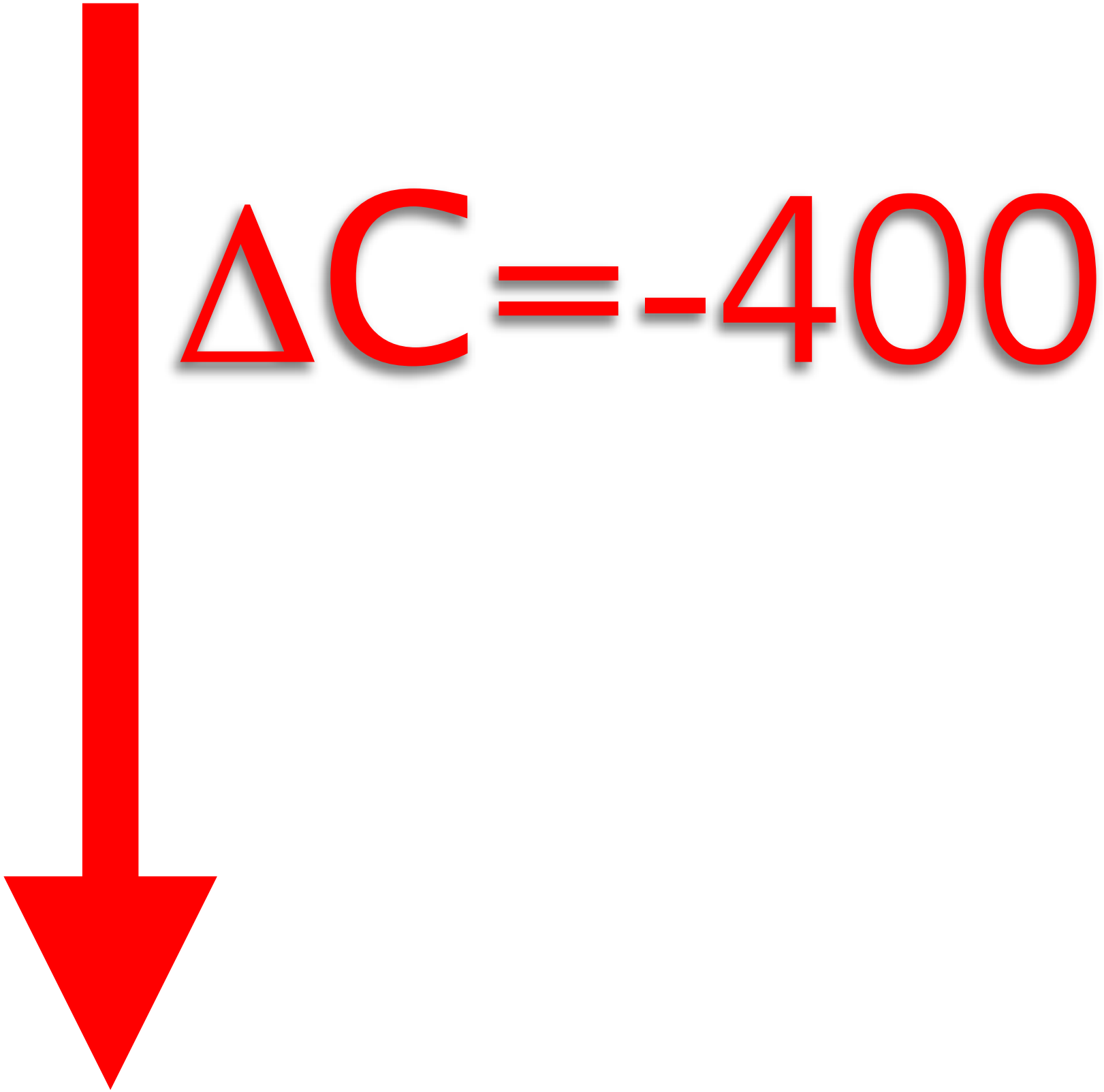
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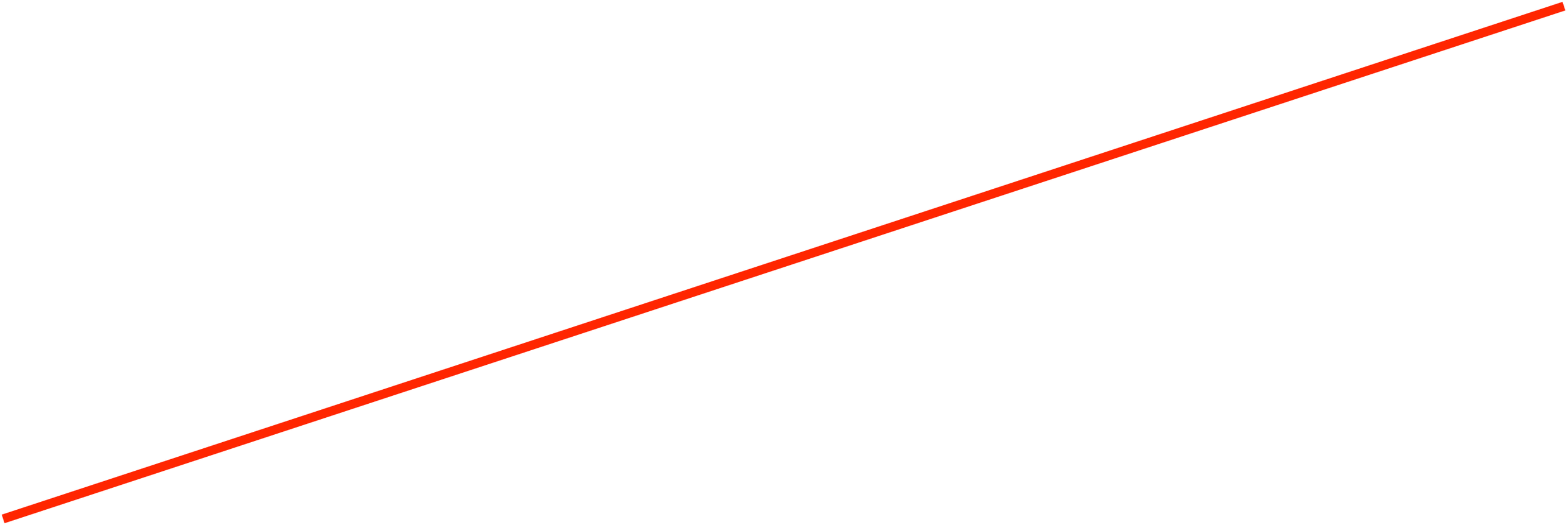

AE1

Inflationary
Gap

The Government must increase Taxes by 500 in order to close a 2,000 Inflationary Gap

If taxes increase by 500, Disposable Income decrease by 500 and Consumption decrease by 500 x MPC = 500 x 0.8 = 400

Fiscal Policy: To close an Inflationary Gap

Increase Taxes

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Increase Taxes

The Government must increase Taxes by 500 in order to close a 2,000 Inflationary Gap

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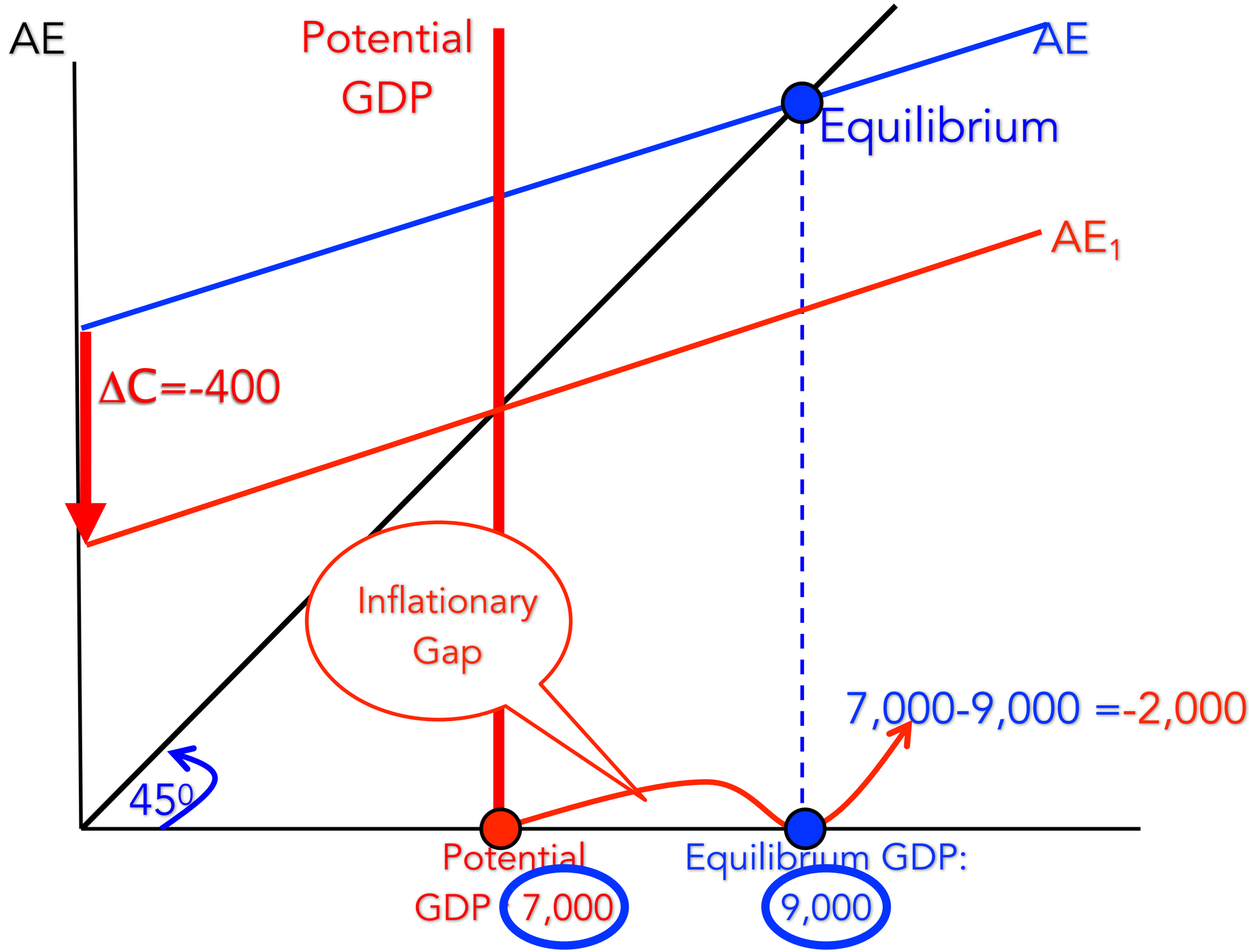

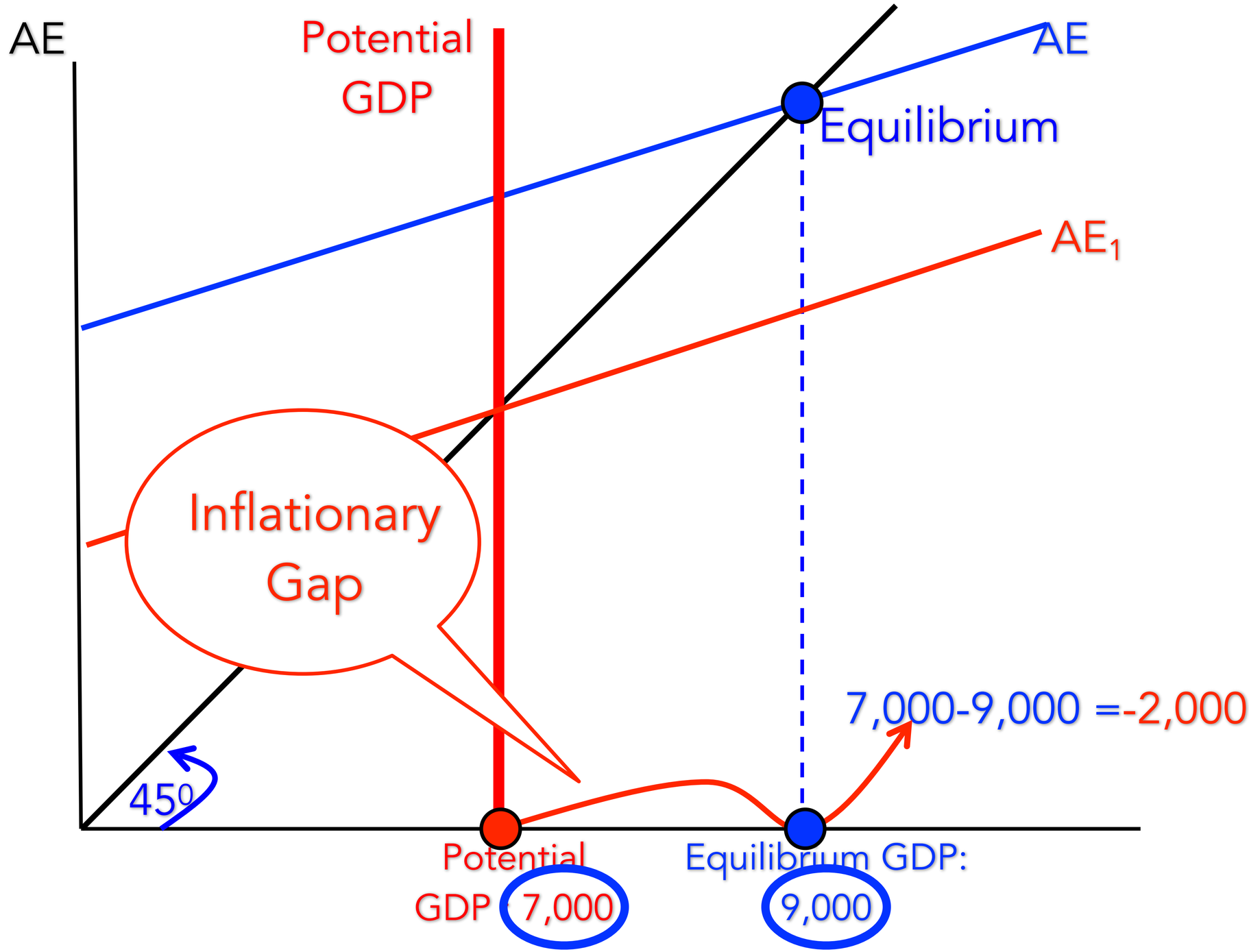
AE
Potential GDP
AE
Equilibrium
AE1
Inflationary Gap
7,000-9,000 =-2,000
450
Potential GDP
7,000
Equilibrium GDP:
9,000