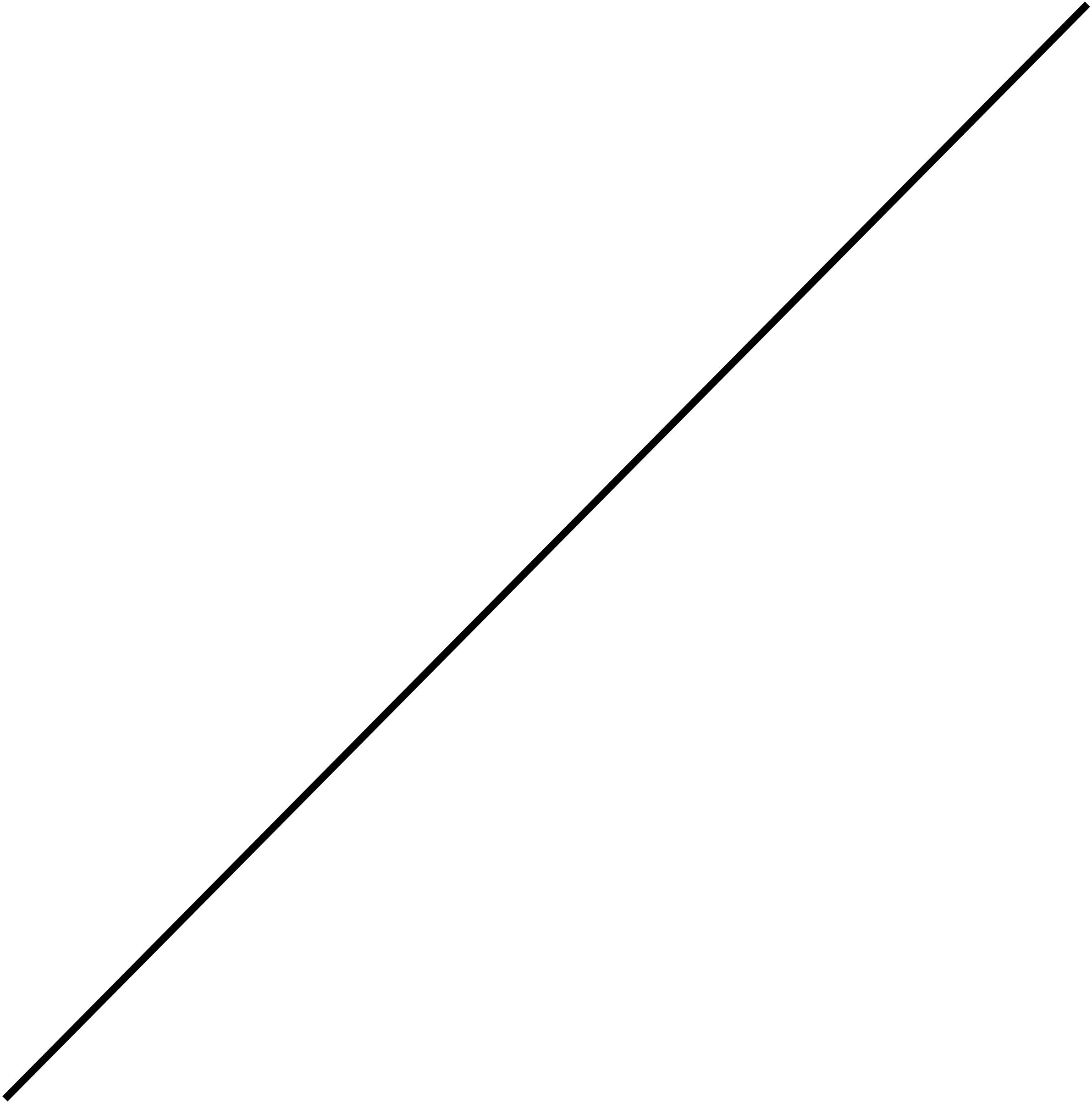




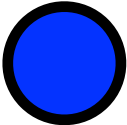
Equilibrium GDP:

9,000





Equilibrium



AE0

Potential
GDP

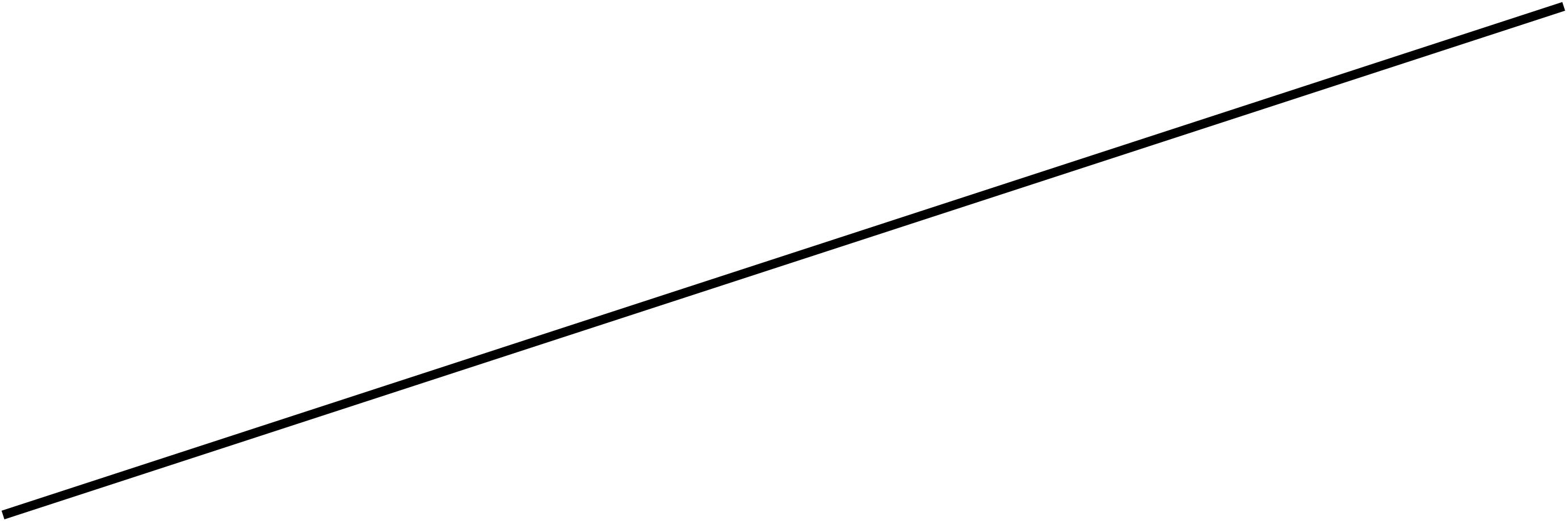


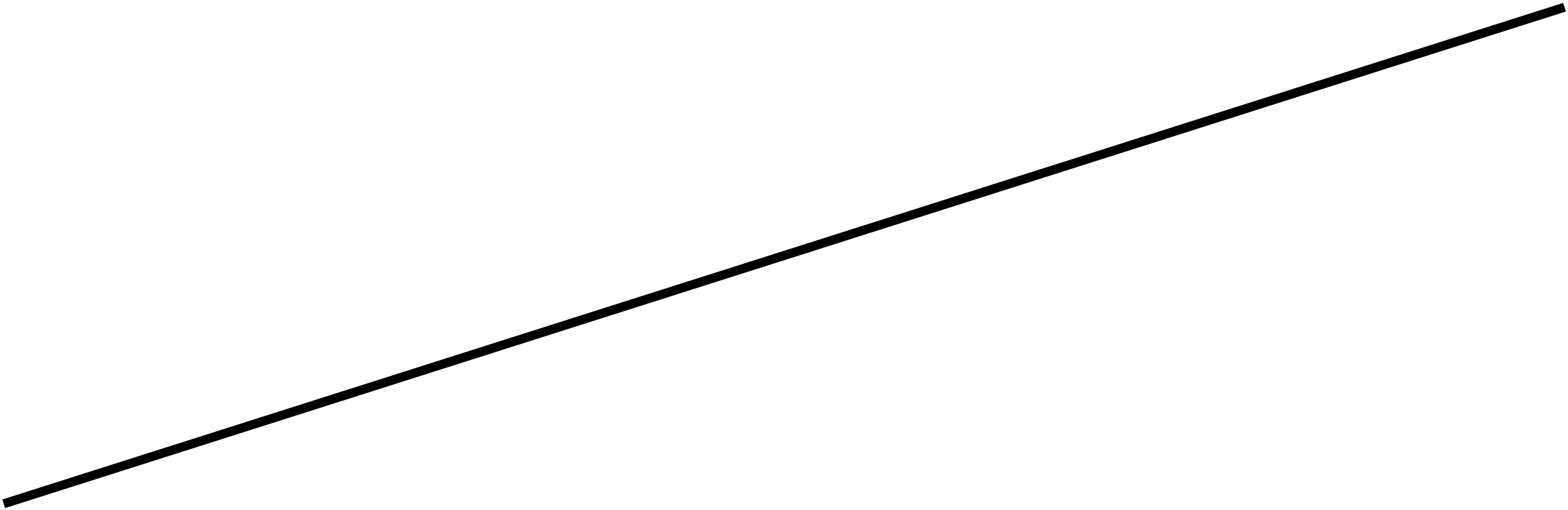
Potential

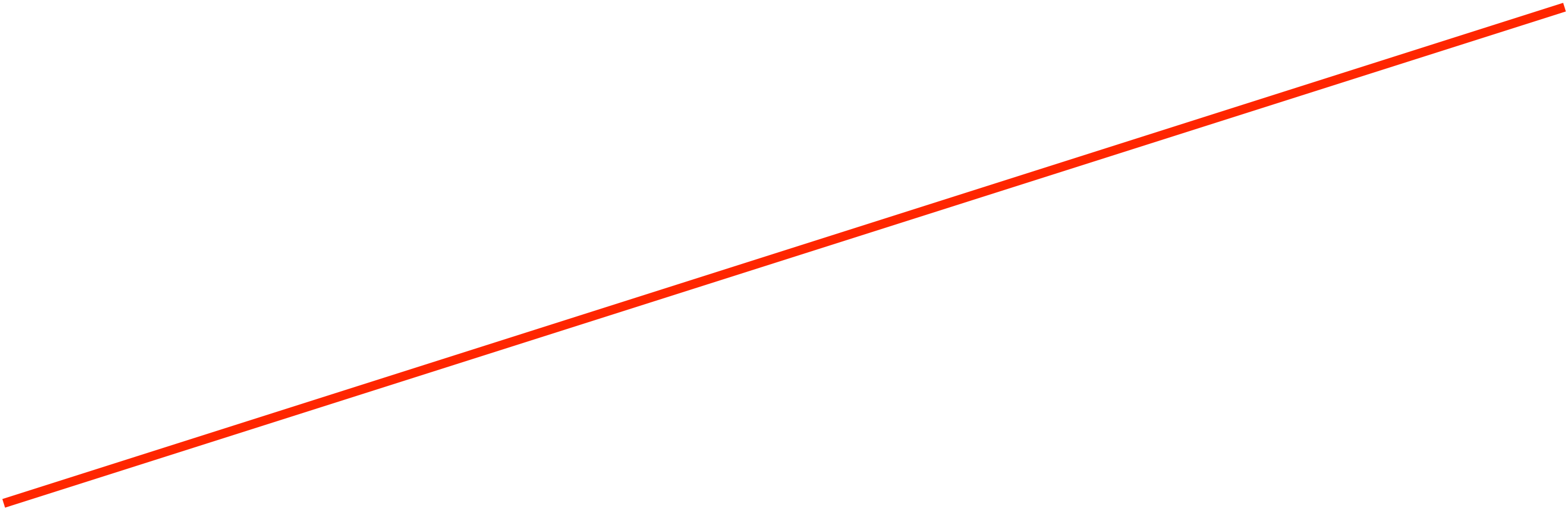
GDP : 7,000



450







AE₁

To eliminate an
Inflationary gap, AE
must fall

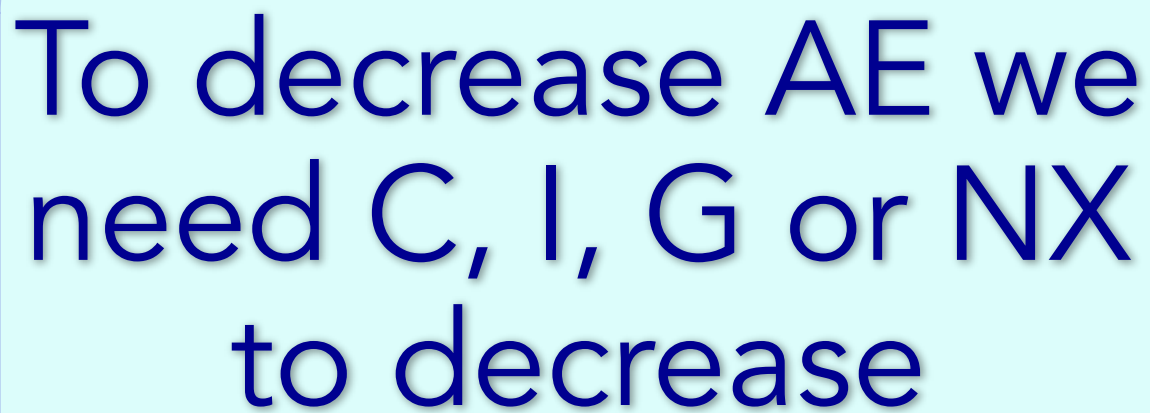
Equilibrium =



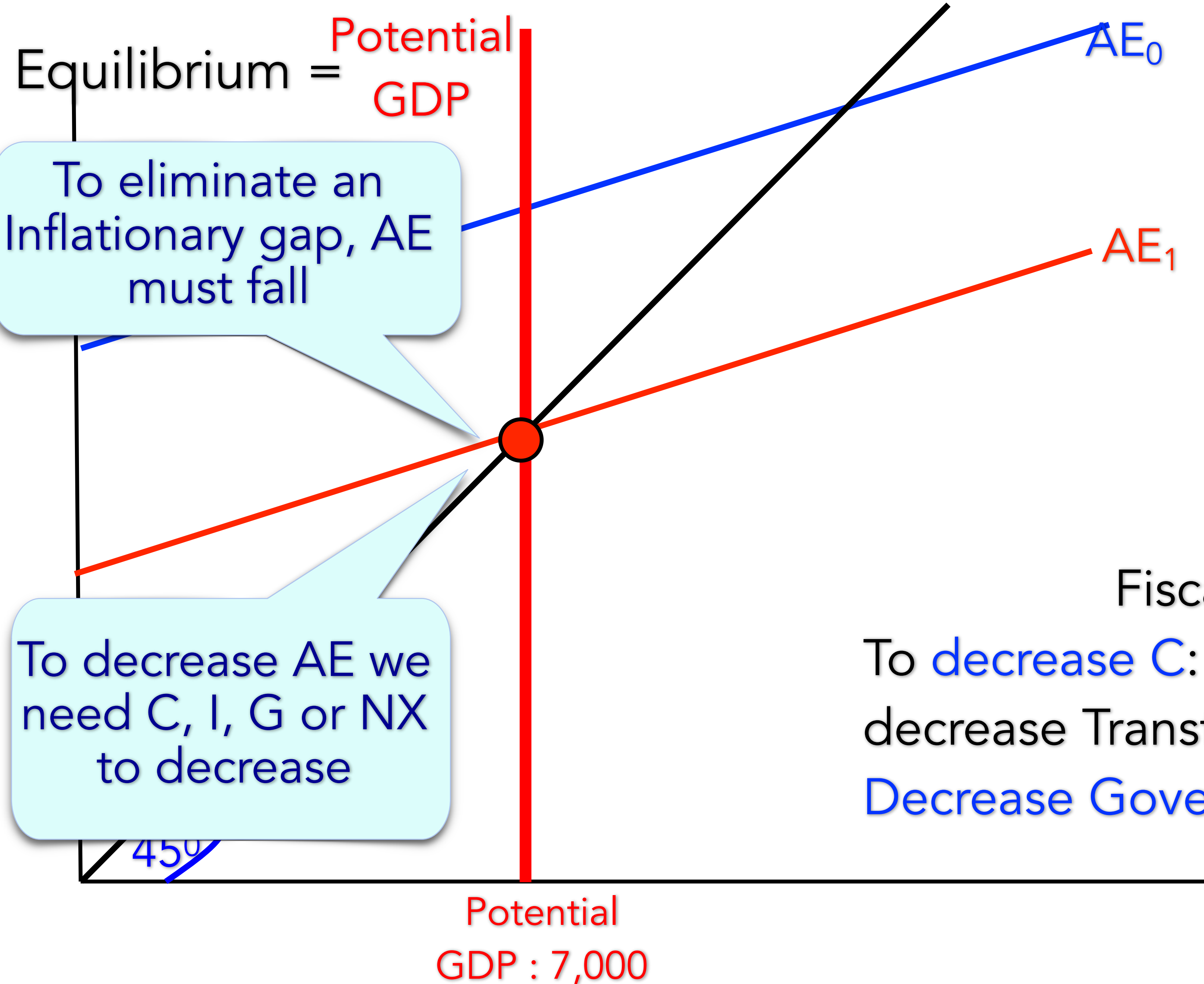
Fiscal Policy

To decrease C : Increase Taxes or
decrease Transfers

Decrease Government spending



To decrease AE we
need C, I, G or NX
to decrease



Fiscal Policy

To decrease C: Increase Taxes or decrease Transfers
Decrease Government spending

