

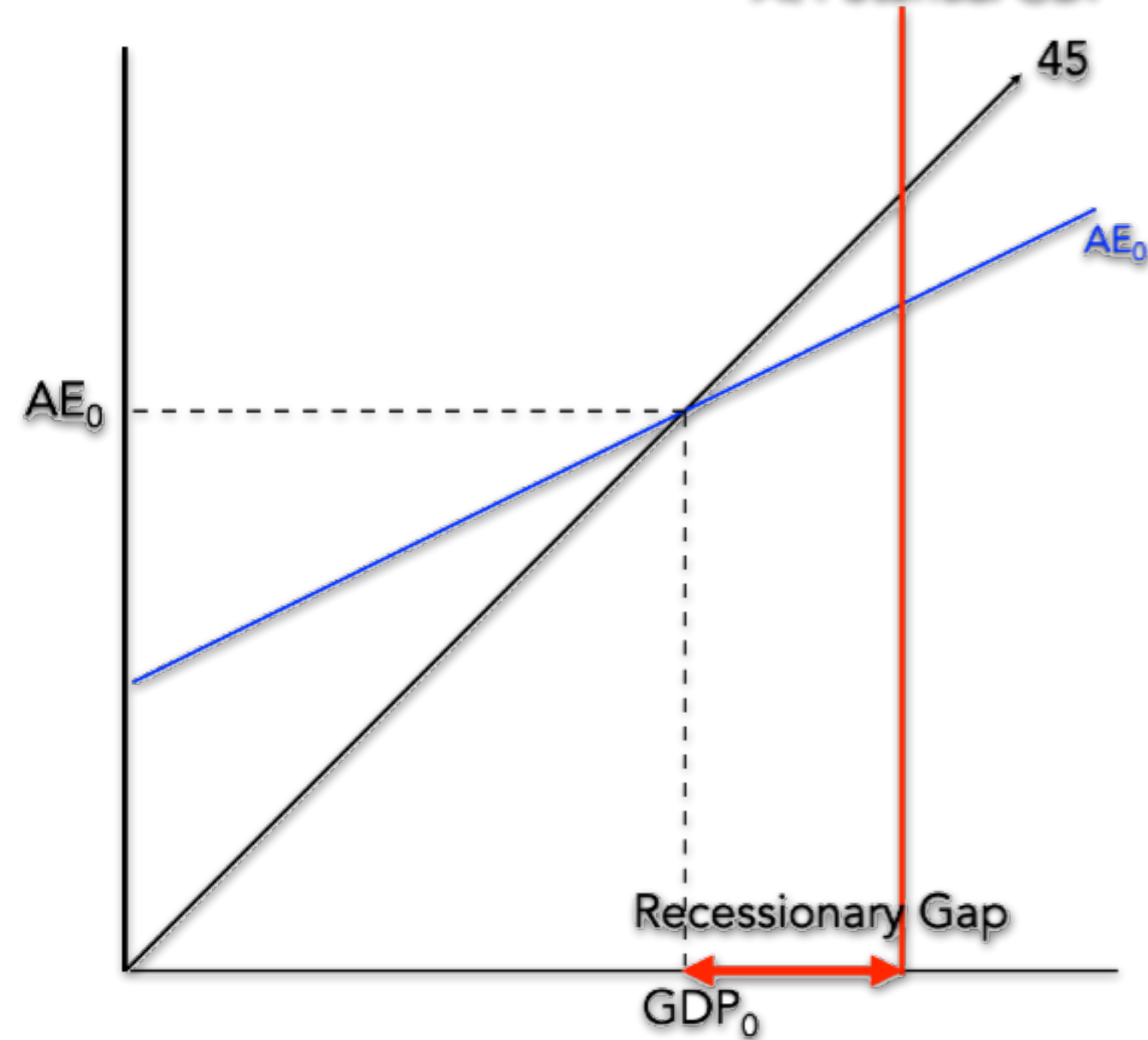
To close a **Recessionary** Gap, Aggregate Expenditures and Aggregate Demand must **increase**

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

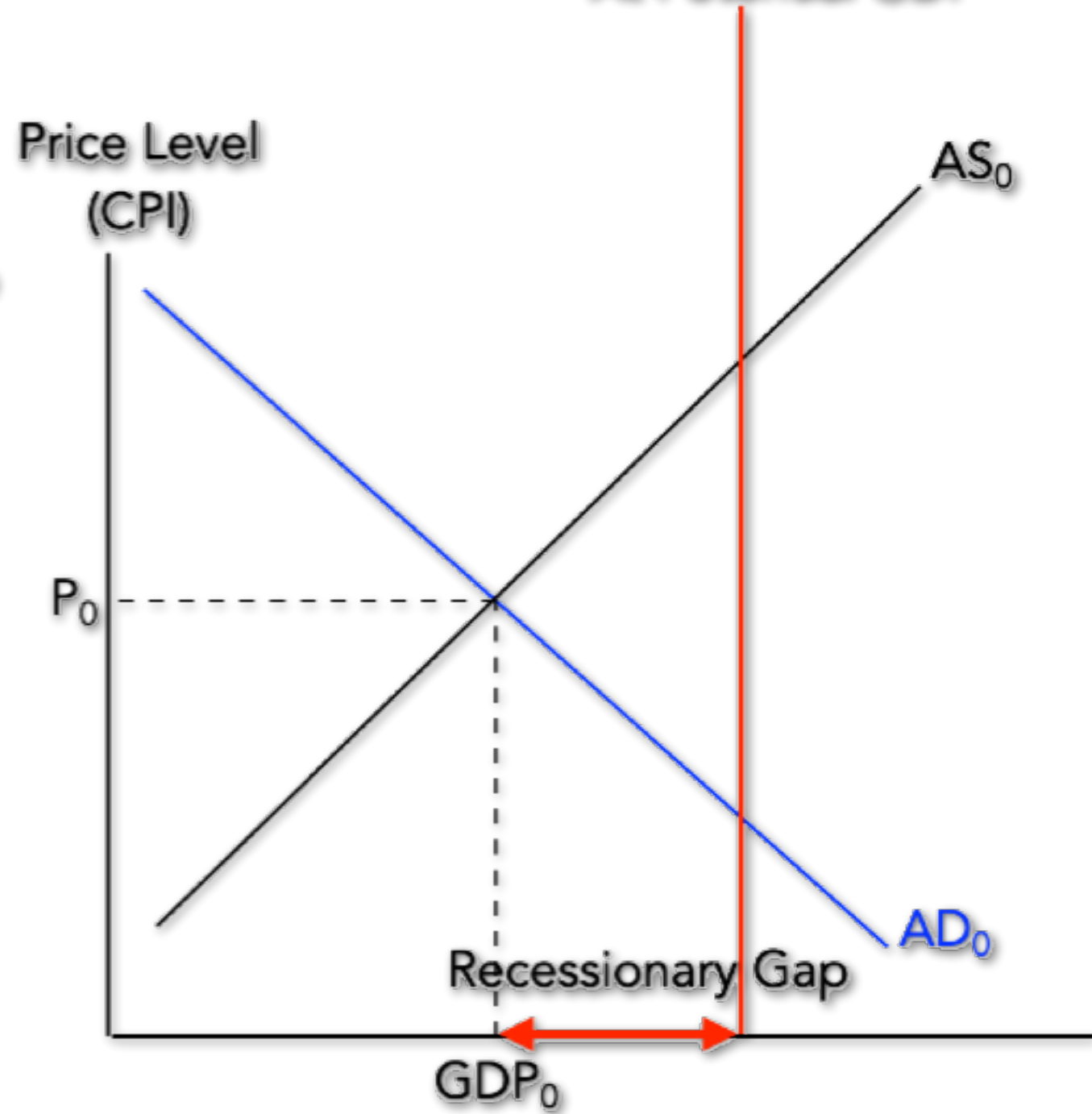
2. Increase Government Spending

Expansionary Policy

At Potential GDP



At Potential GDP

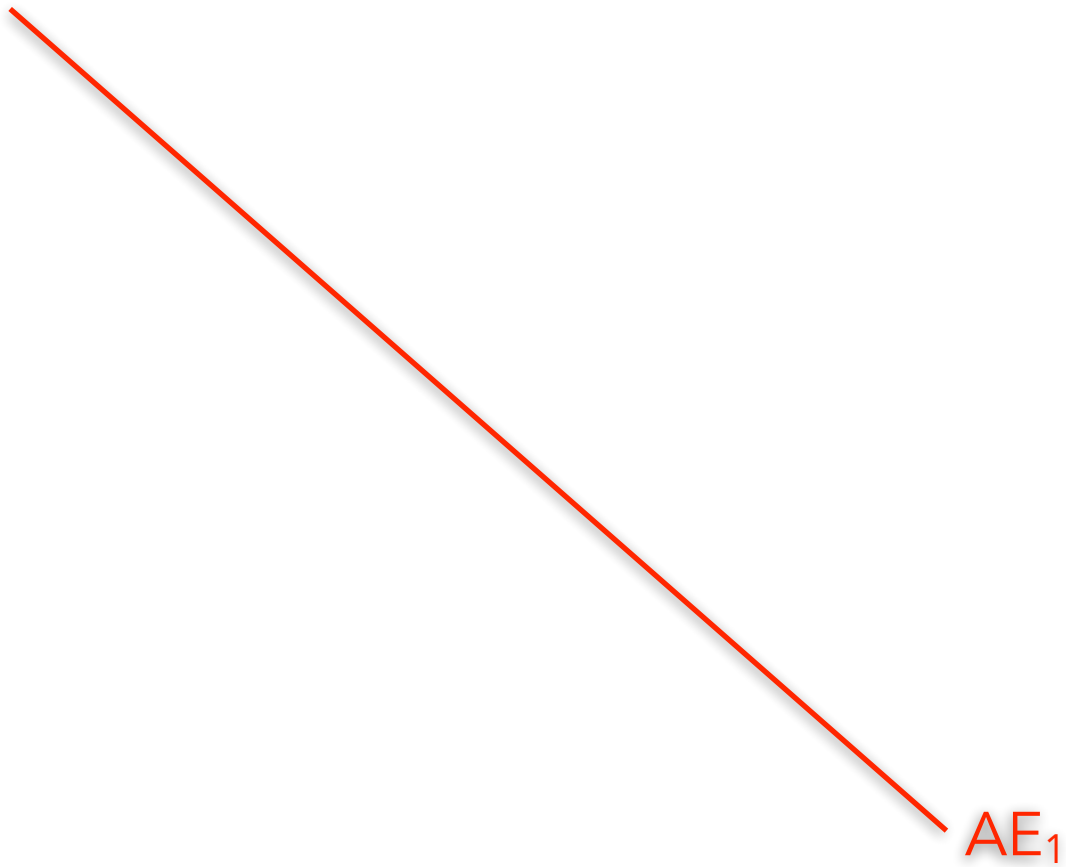


3. **Buy bonds** to increase the Money Supply and cause a drop in all interest rates to promote an increase in Investment

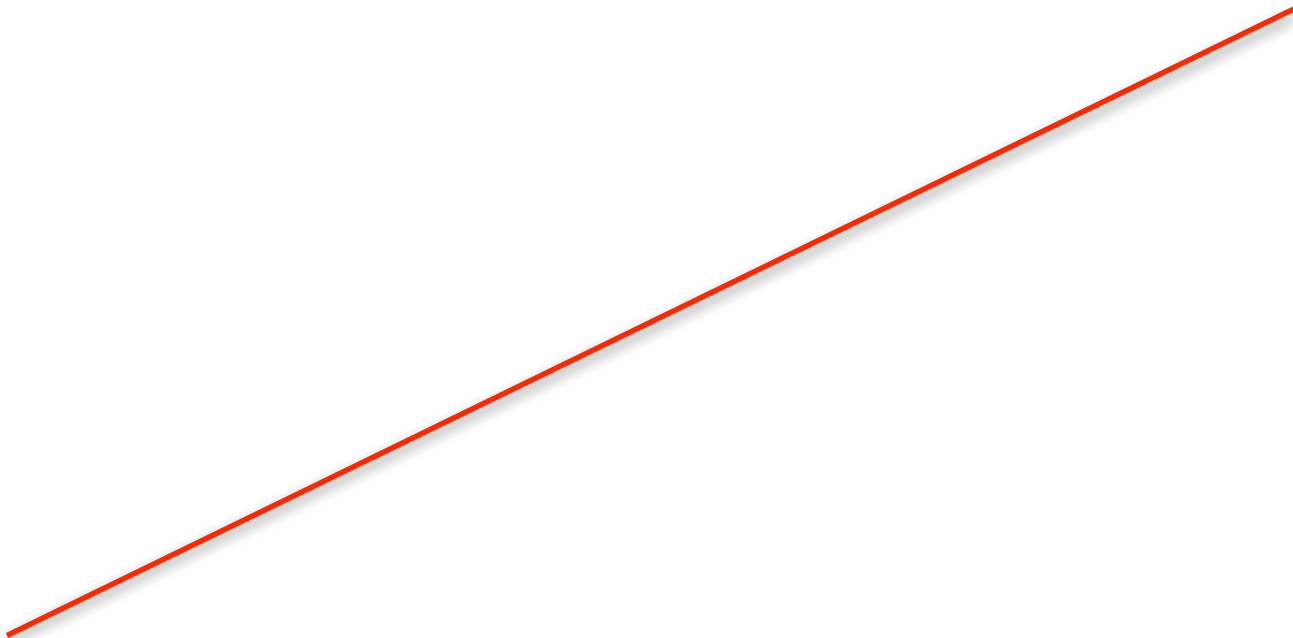
3. Decrease interest rates to increase investment

Expansionary Fiscal Policy

Expansionary Monetary Policy



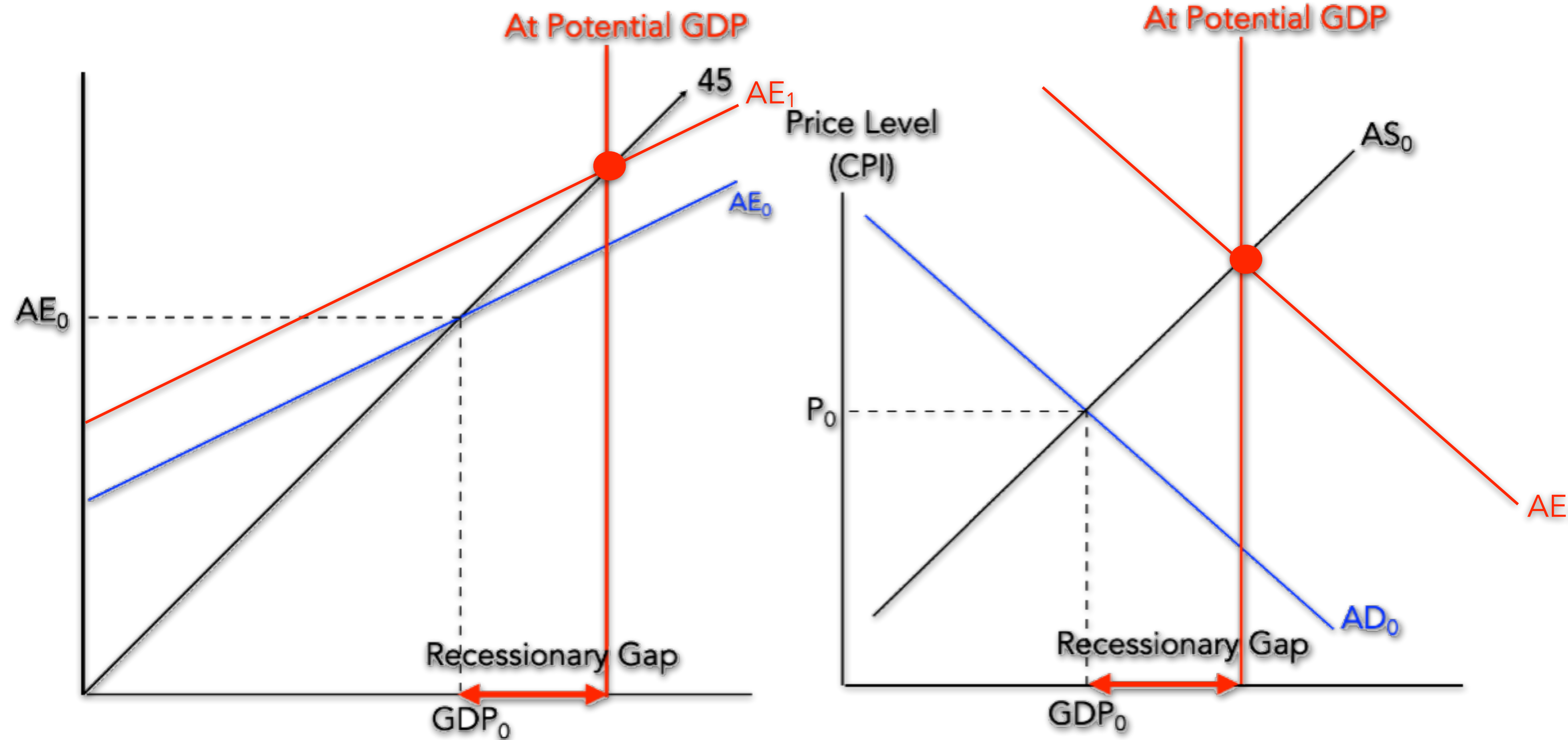
AE_1







Expansionary Policy



To close a **Recessionary** Gap, Aggregate Expenditures and Aggregate Demand must **increase**

1. **Decrease** Taxes and/or Increase Transfers to increase Consumption
2. **Increase** Government Spending

Expansionary Fiscal Policy

3. **Buy bonds** to increase the Money Supply and cause a drop in all interest rates to promote an increase in Investment

Expansionary Monetary Policy

Inflation Rate

