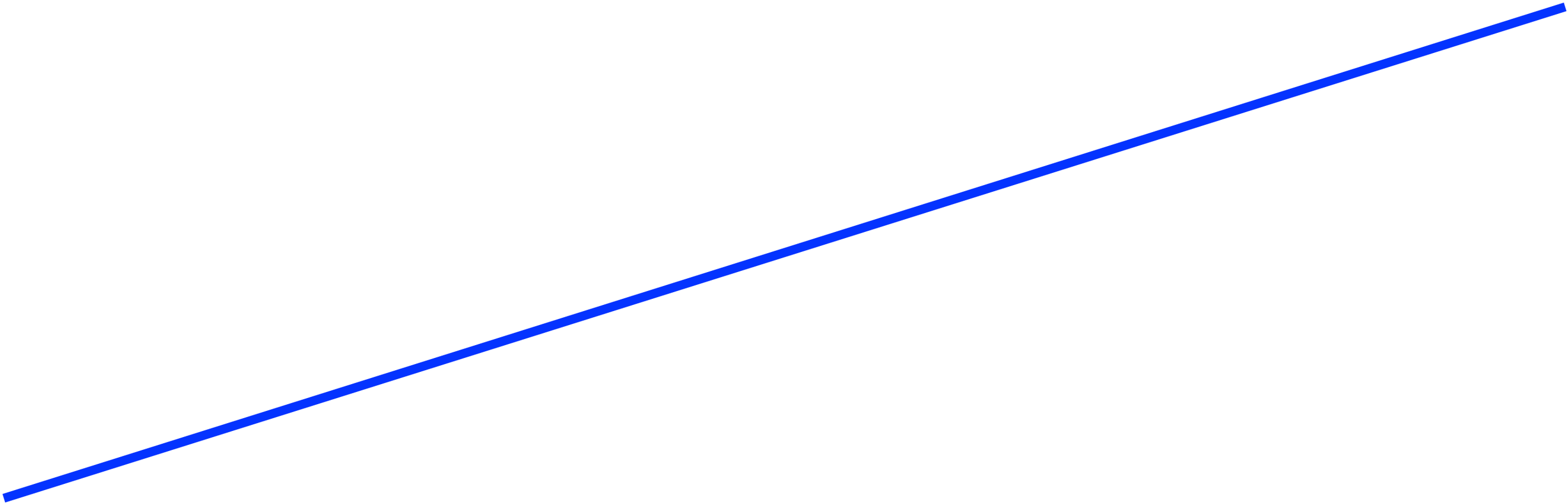
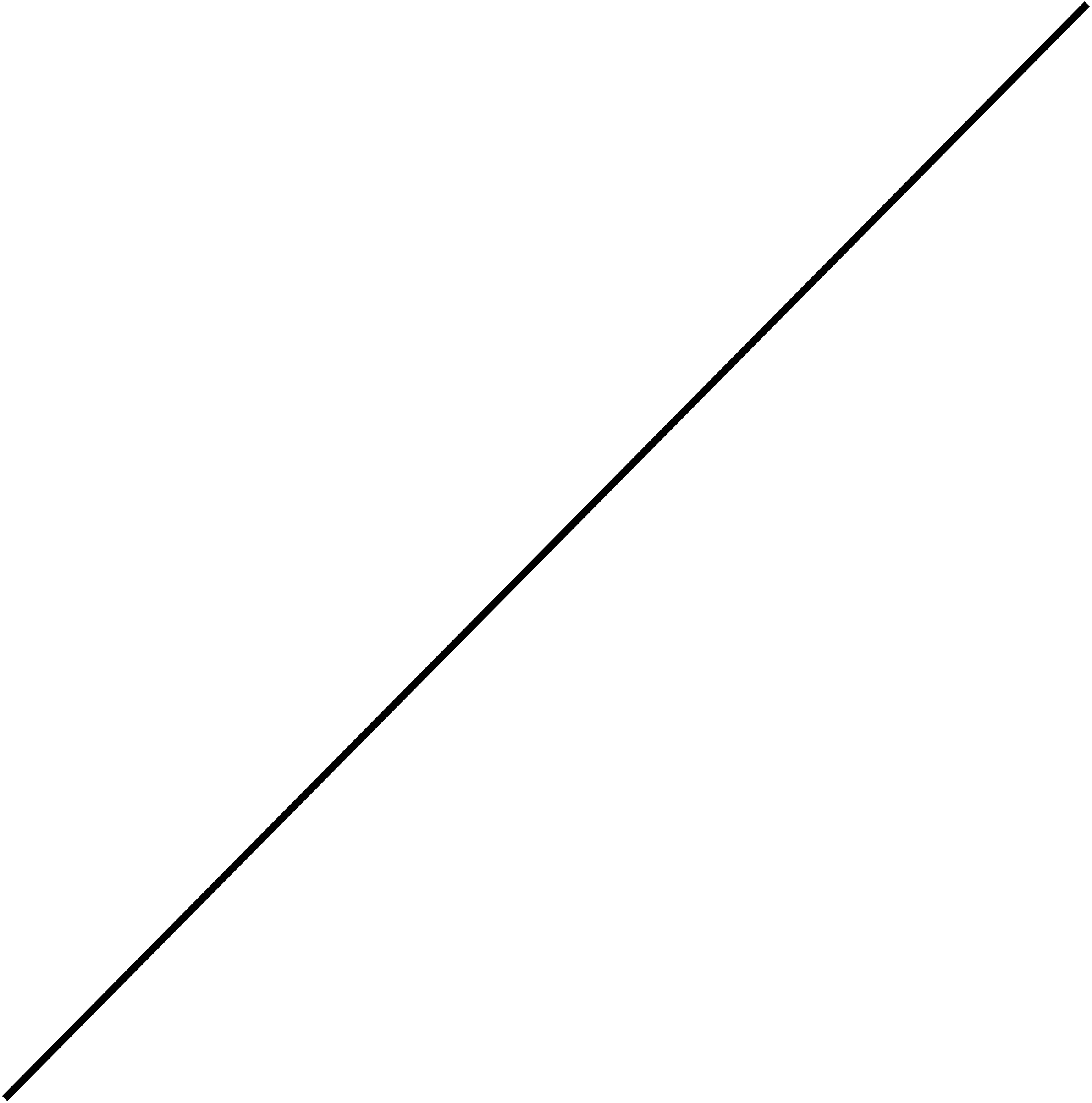
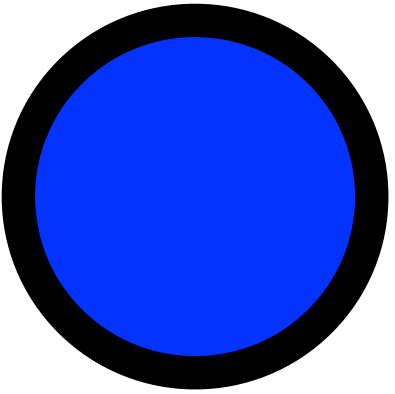


AE

Equilibrium GDP: 9,000



Equilibrium

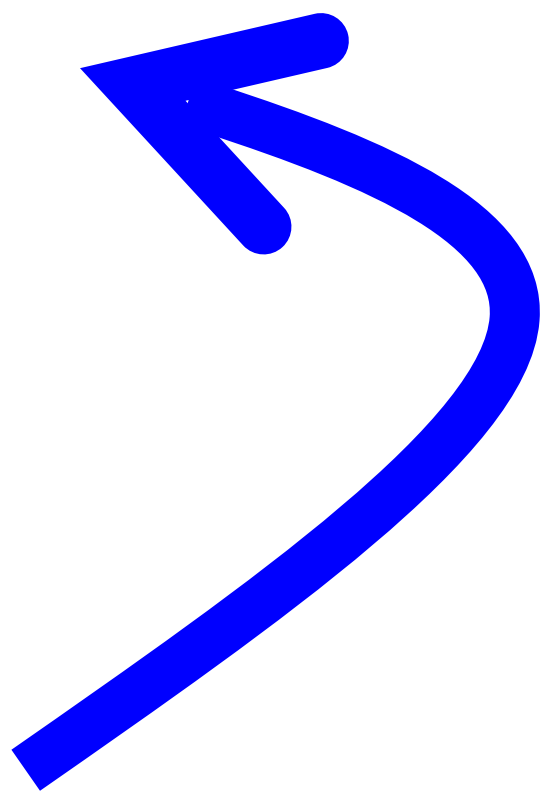


AE

Potential GDP

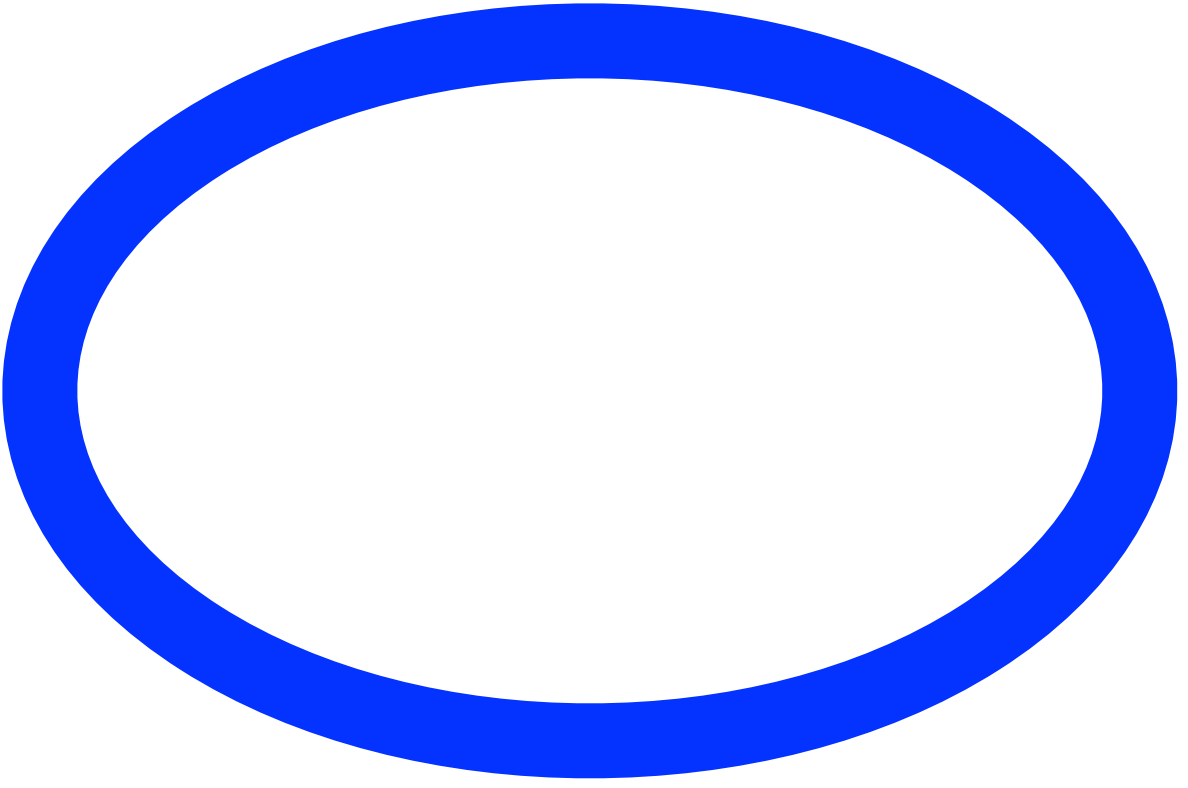
Potential

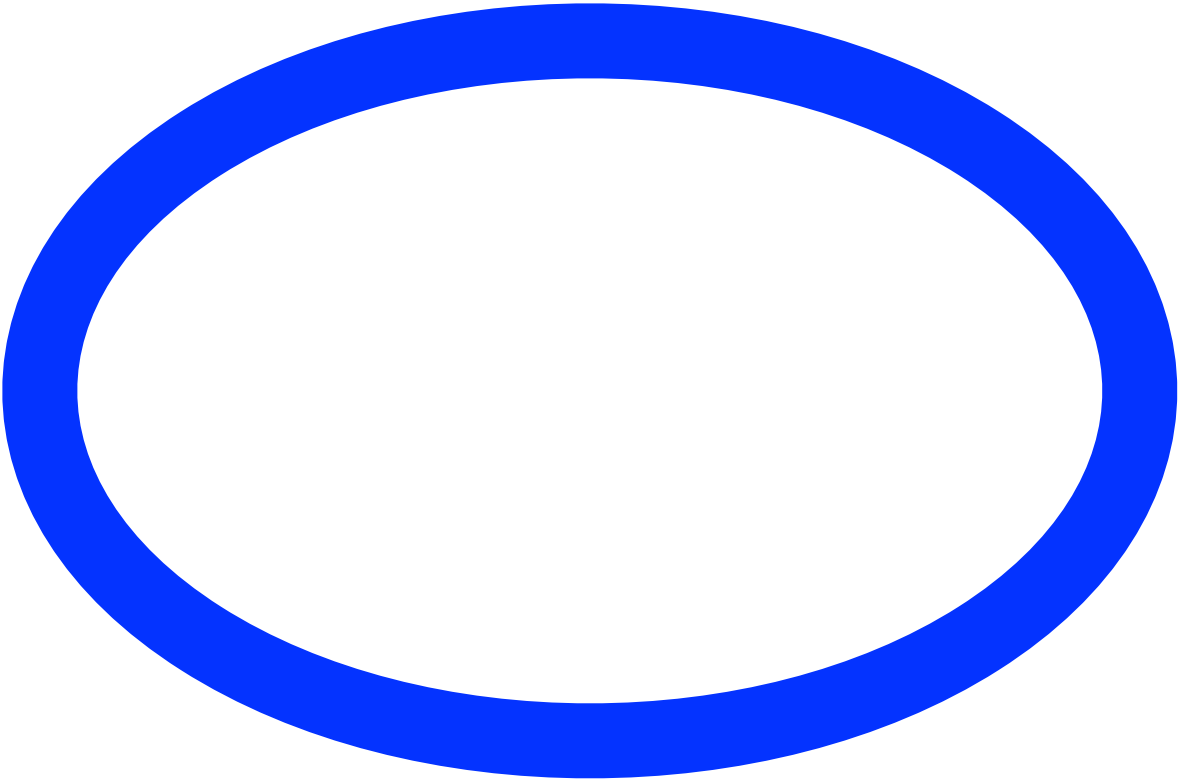
GDP : 7,000

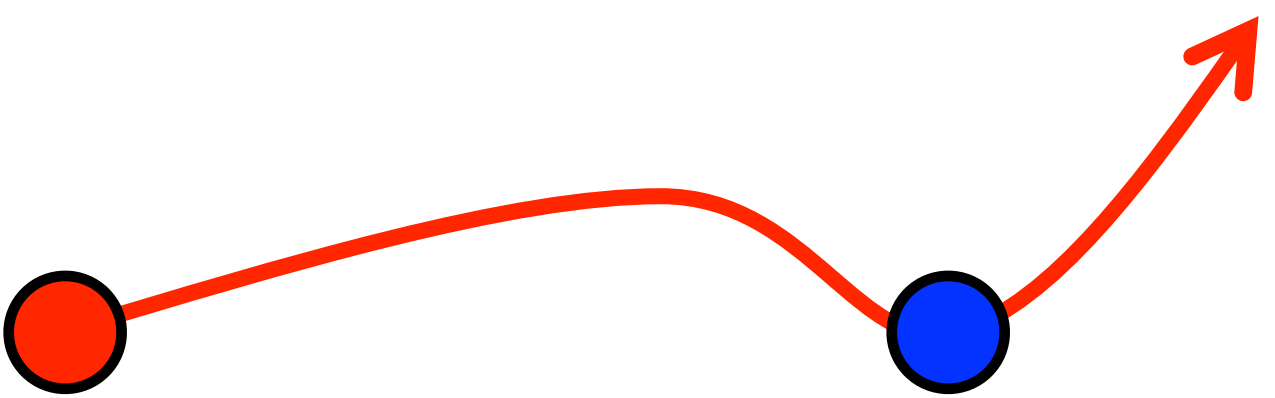


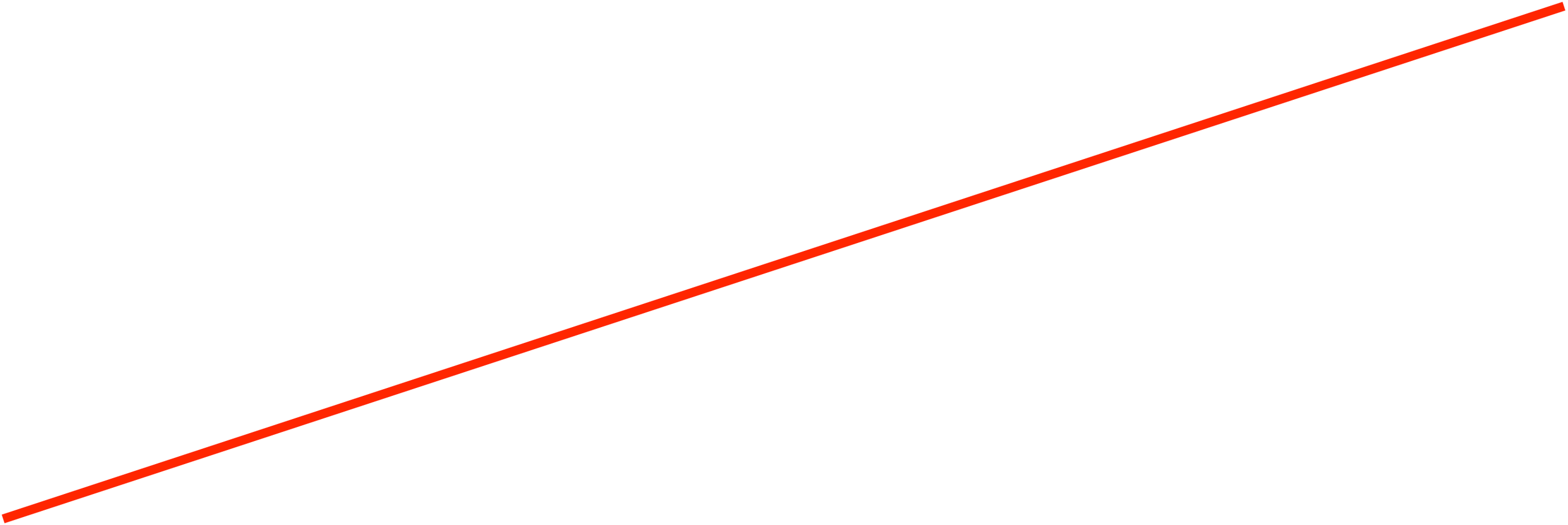
45º

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





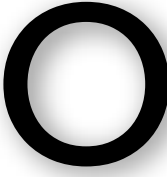


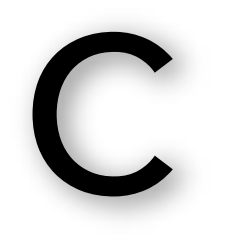


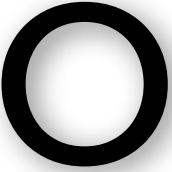
AE1

Inflationary
Gap

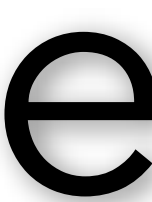
Calculate the size of the decrease in Government Spending and Taxes necessary to close this 2,000 Inflationary Gap

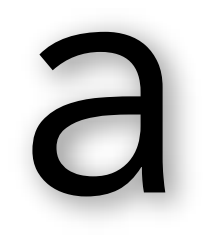


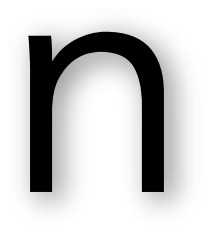




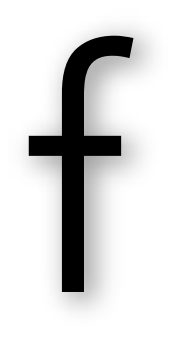
S

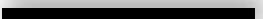


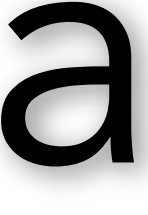

a

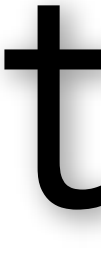

n

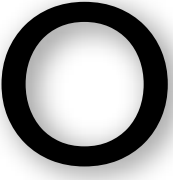
n

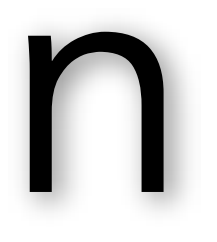


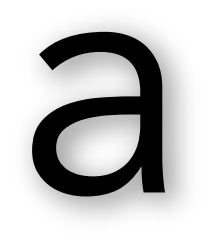


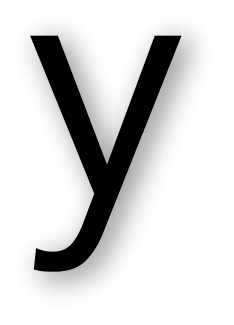

a

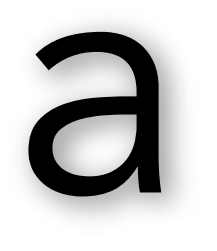


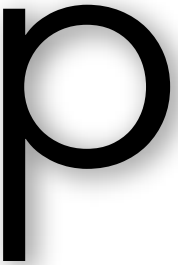


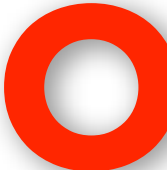

n


a


y


a

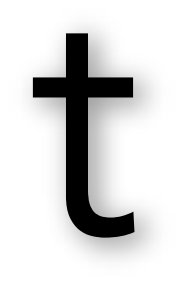


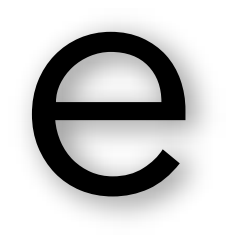


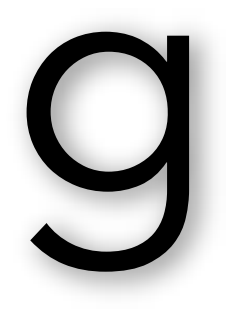
C

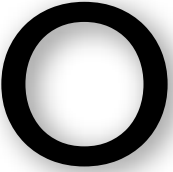
a

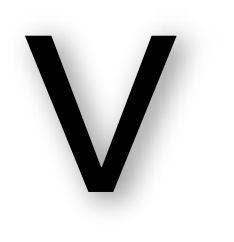
C

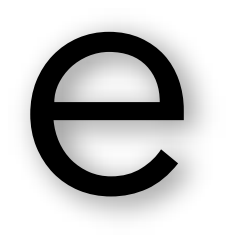


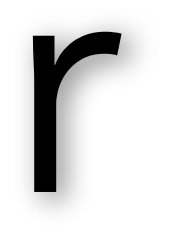


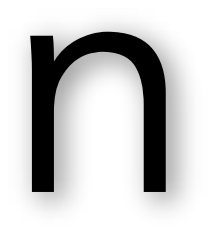


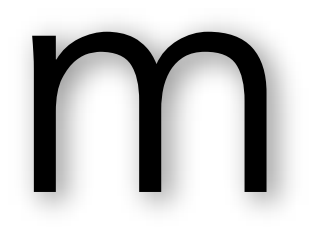


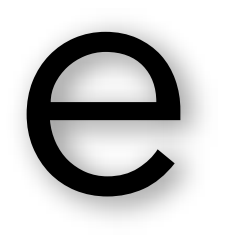


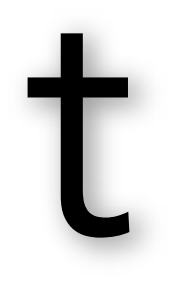








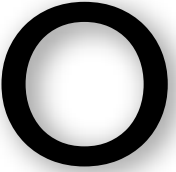


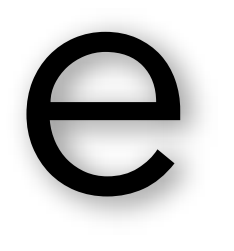


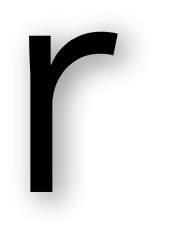
S

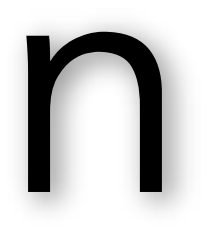
t

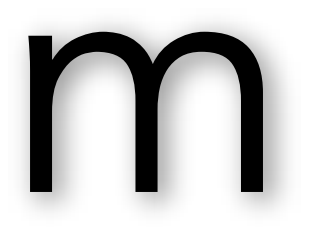
a

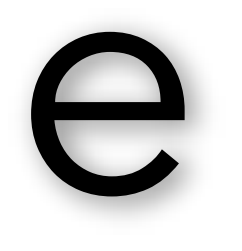


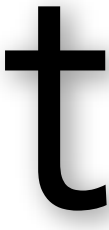


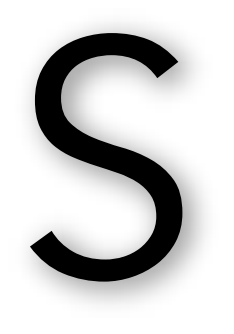


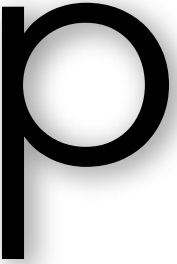


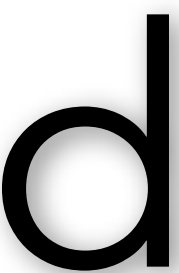


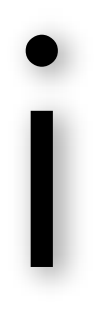


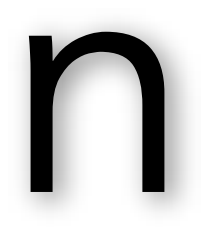


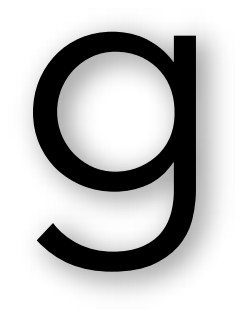


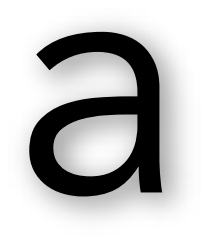


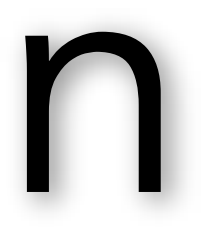


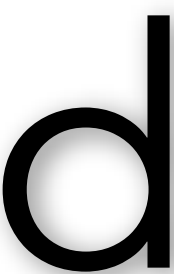


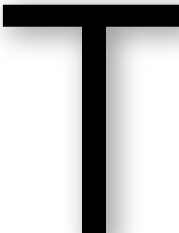


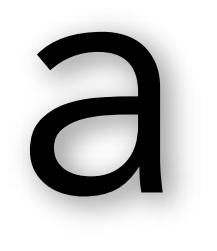


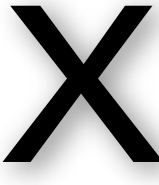

a

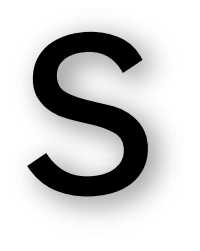


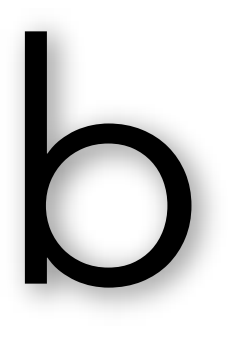


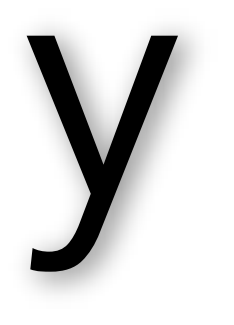


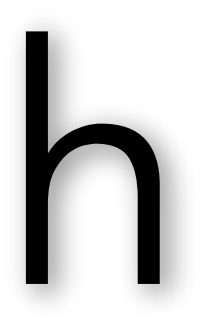

a

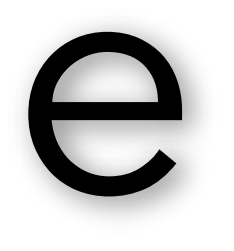



S

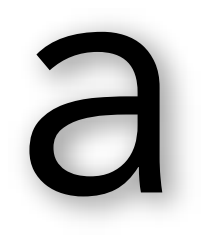


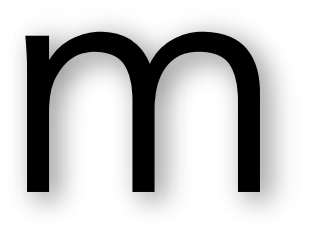

y

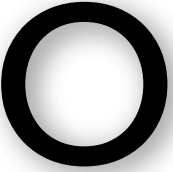


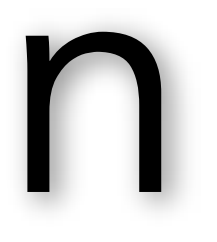


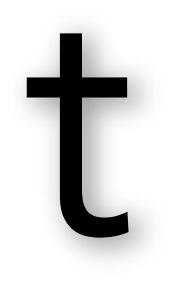
a


a

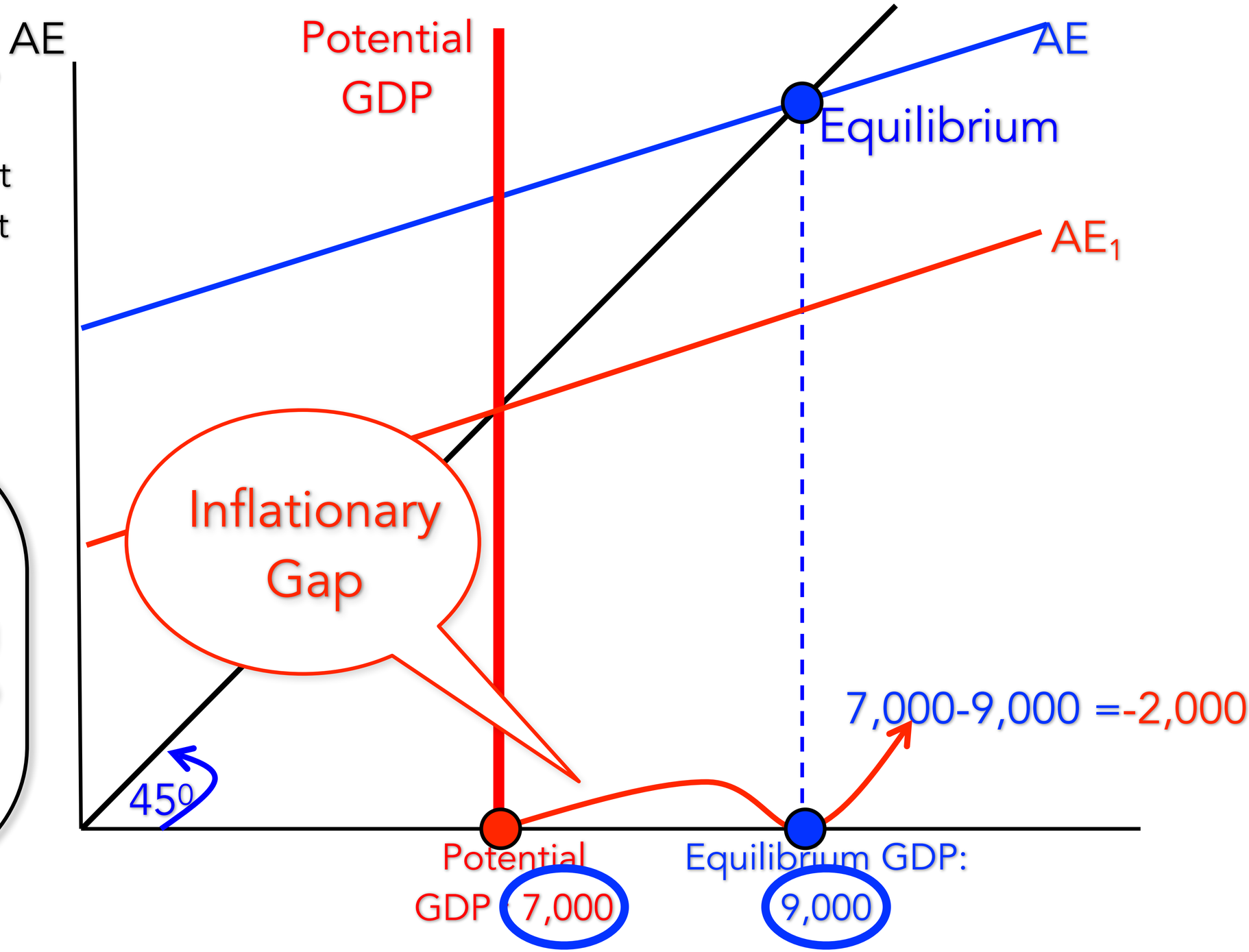





n



To close an Inflationary Gap **without increasing the Deficit** the government must **decrease both** Government Spending and Taxes by the same amount

To close an Inflationary Gap **without increasing the Deficit** the government must **decrease both** Government Spending and Taxes by the same amount

Calculate the size of the decrease in Government Spending and Taxes necessary to close this 2,000 Inflationary Gap