

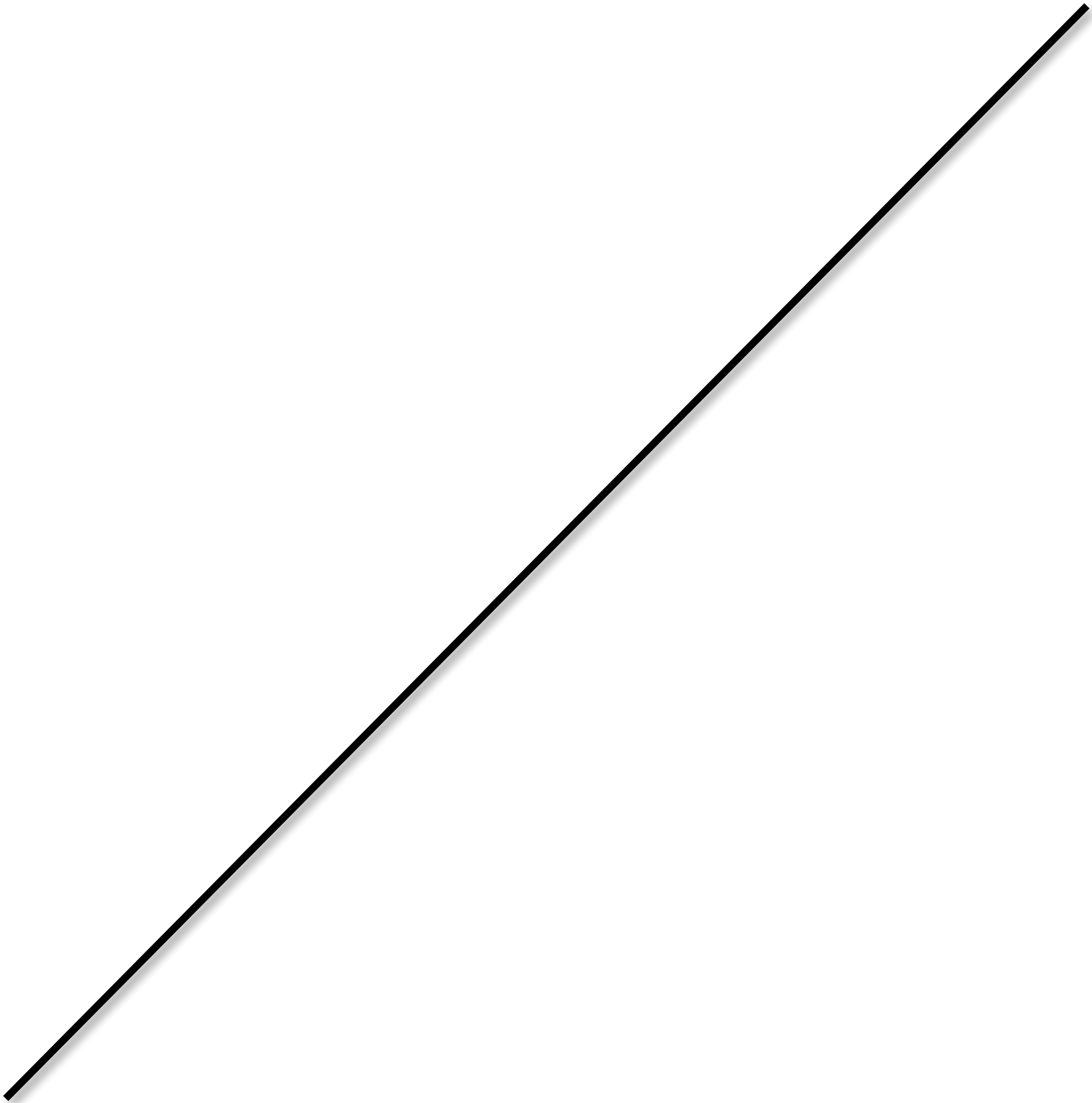
**AE**



Equilibrium GDP:

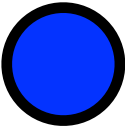
6,000







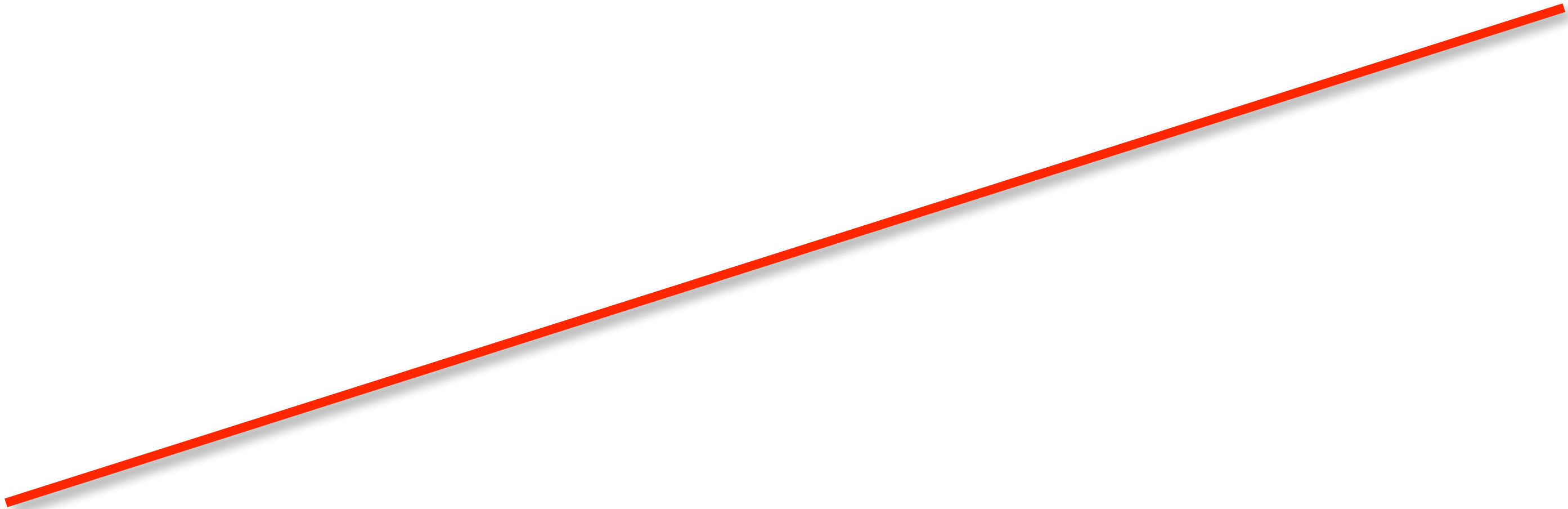
Equilibrium



AE<sub>0</sub>

# Potential GDP





AE<sub>1</sub>



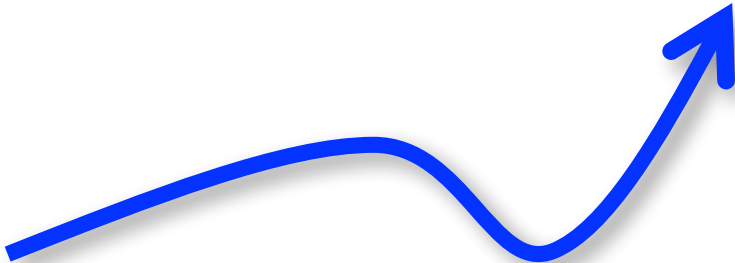
Potential

GDP : 7,000



Recessionary Gap:

$$7,000 - 6,000 = 1,000$$





Calculate the size of  
the **change in Government  
Spending and Taxes** necessary  
to close this 1,000  
Recessionary Gap





















**R**





















**V**









W









U

























9



































V



















U

















2





**b**













**V**

















































**V**









2





















To close a Recessionary Gap  
**without increasing the**  
**Deficit** the government must  
**increase both** Government  
Spending and Taxes by the  
**same** amount

To close a Recessionary Gap **without increasing the Deficit** the government must **increase both** Government Spending and Taxes by the **same** amount

Calculate the size of the **change in Government Spending and Taxes** necessary to close this 1,000 Recessionary Gap

