

1. GDP = ?

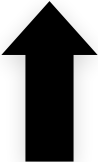
2. Is total spending **larger** than / **smaller** than / equal to Output?

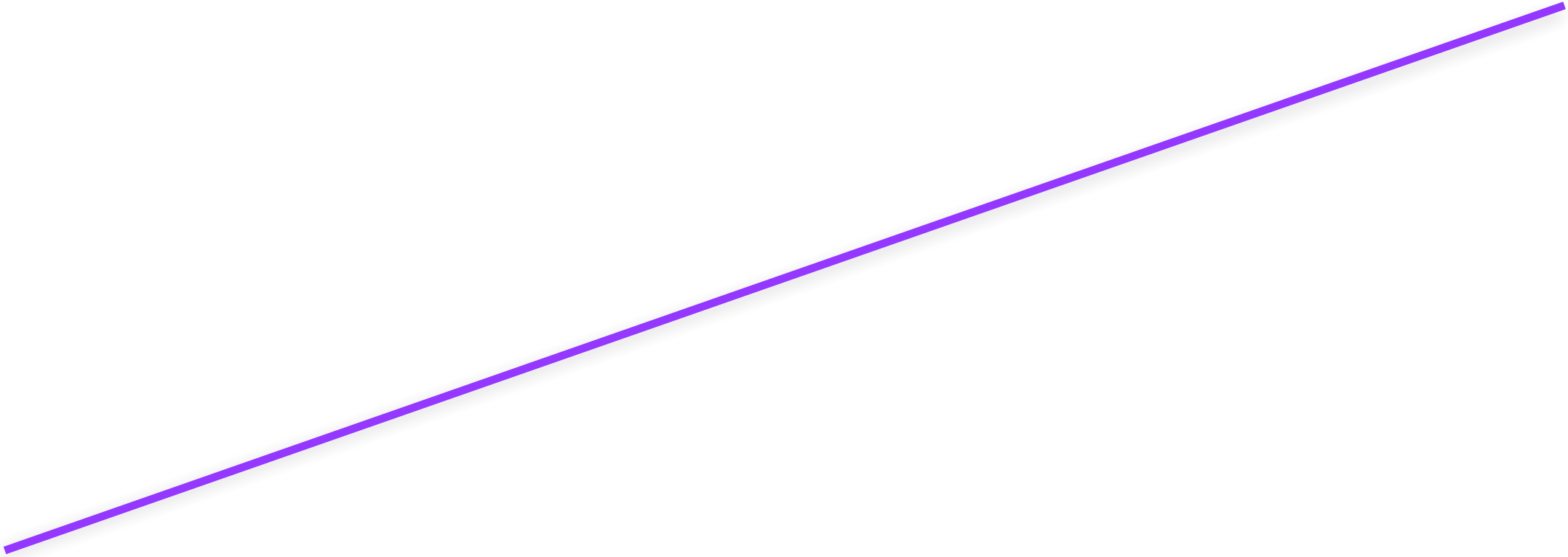
3. Do Inventories **fall**, **rise** or remain unchanged?

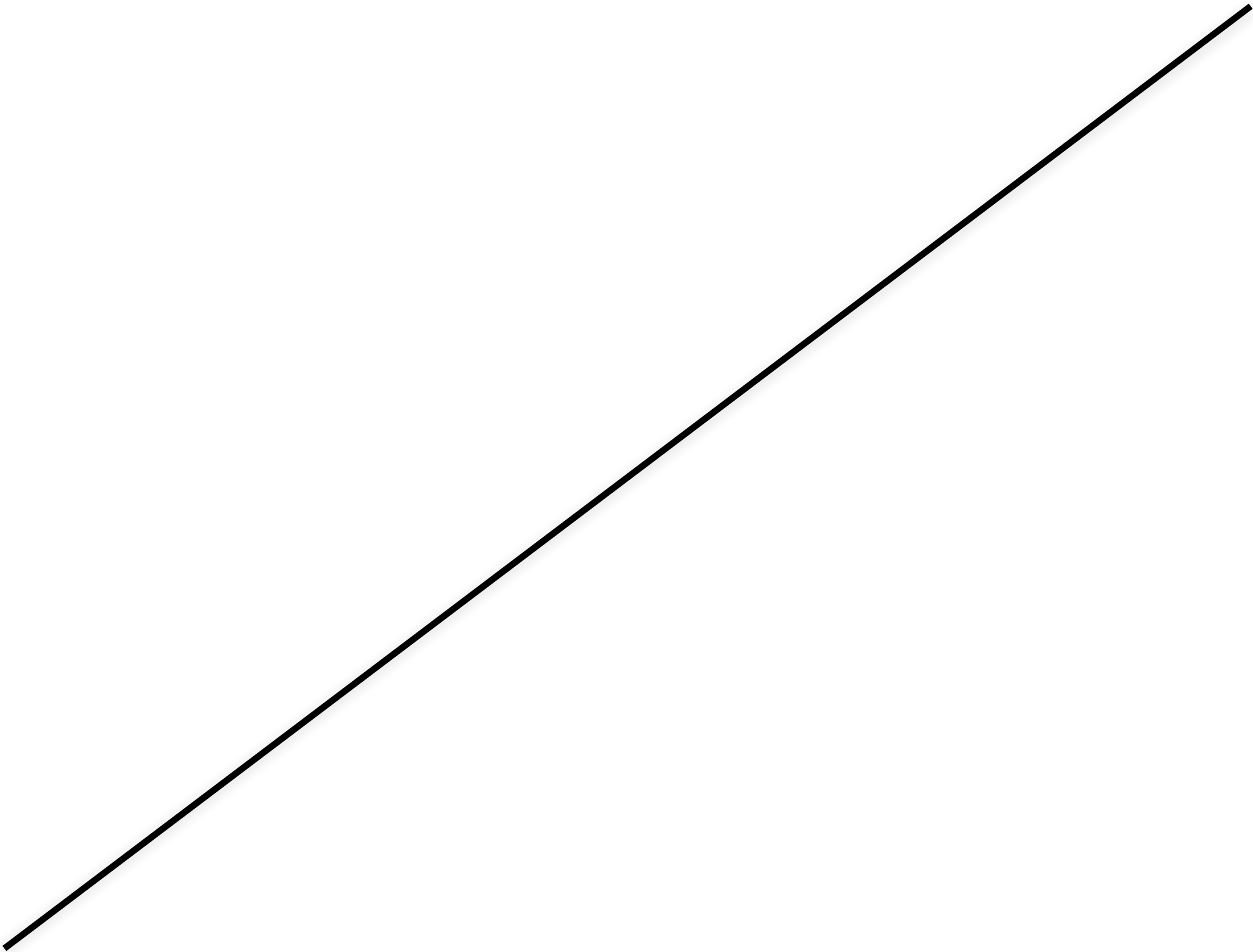
4. Does the economy experience a recessionary/inflationary gap?

5. What is the size of the gap?

6. How can the gap be closed?













GDP=4,000

$$AE = 4,000$$

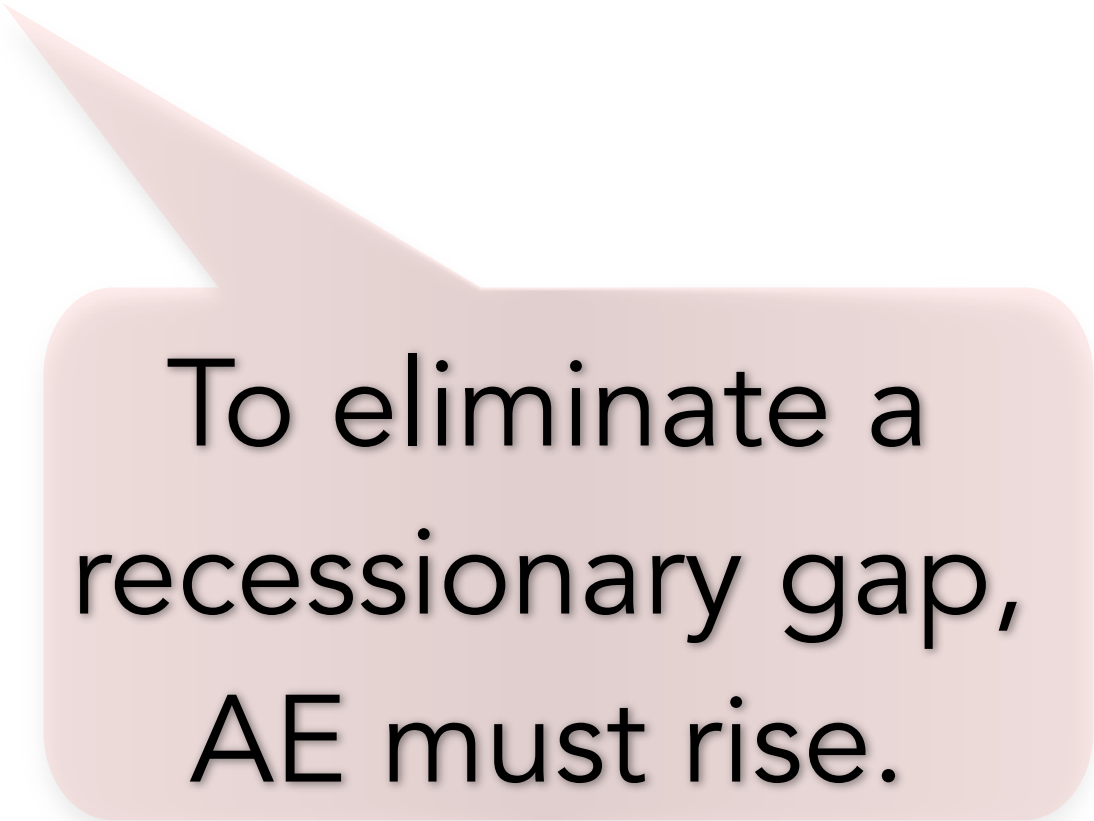
GDP=5,000





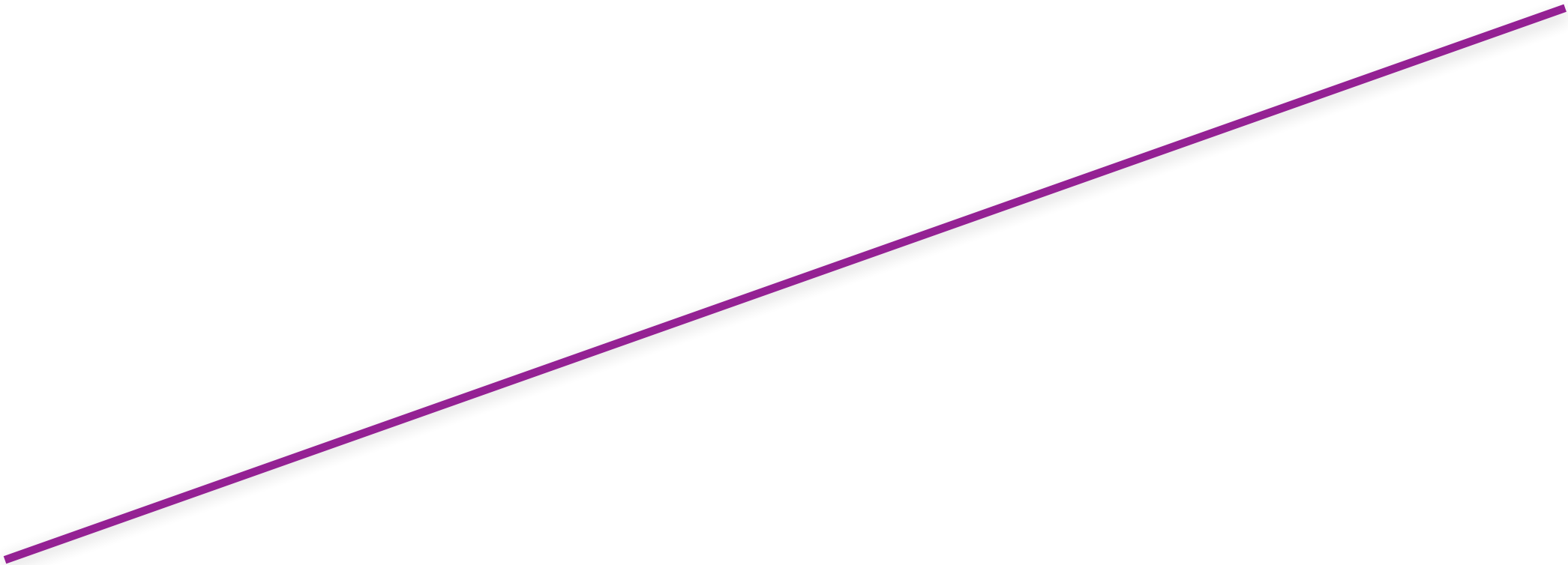


$$\text{Gap} = 5,000 - 4,000 = 1,000$$



To eliminate a
recessionary gap,
AE must rise.

Output



AE₁

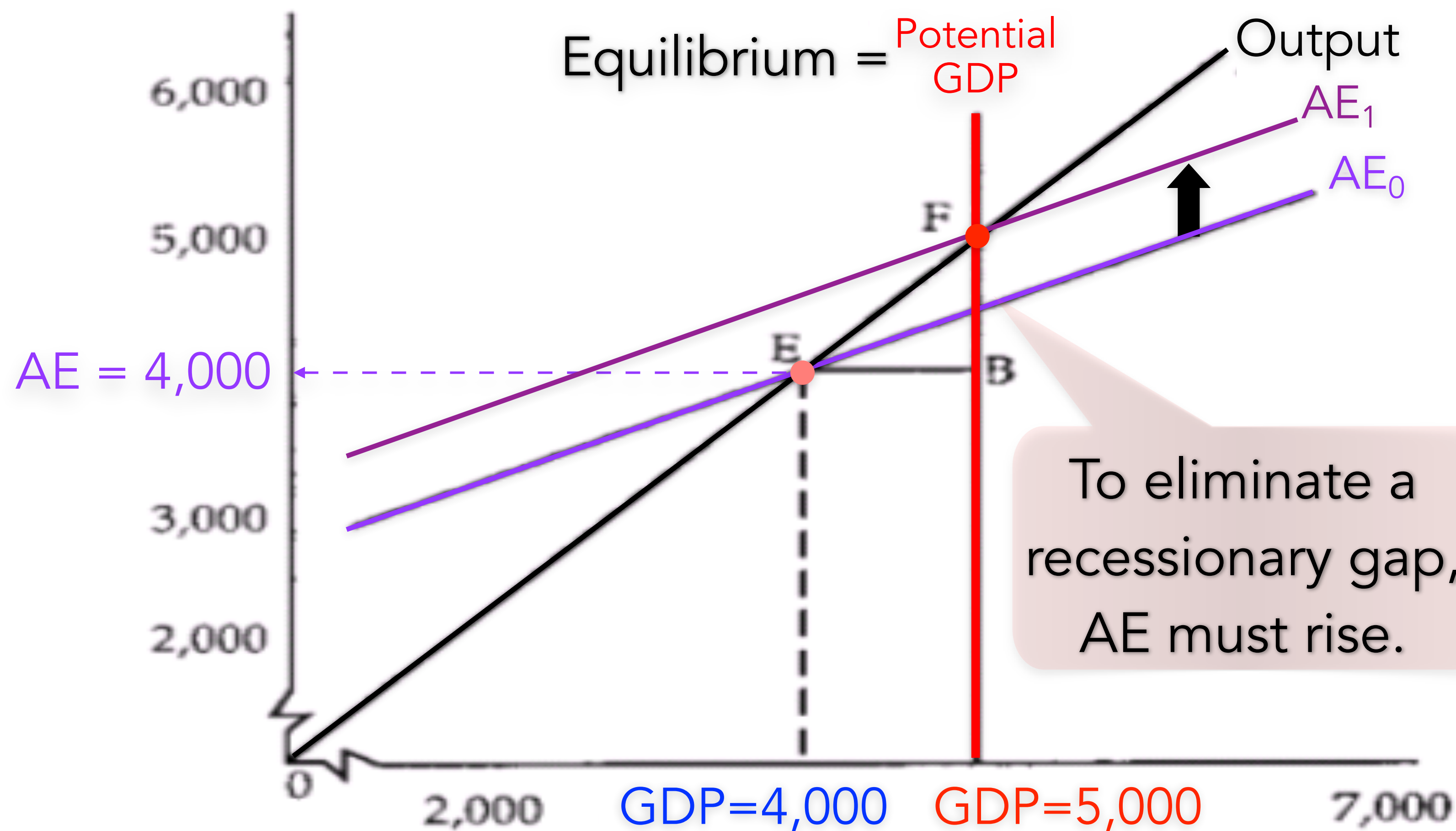
Potential
GDP

Equilibrium =



Or $\text{Gap} = \text{Distance EB}$

AE₀



1. GDP = ?

2. Is total spending **larger** than/**smaller** than/**equal** to Output?

3. Do Inventories **fall**, **rise** or remain **unchanged**?

4. Does the economy experience a **recessionary**/**inflationary** gap?

5. What is the size of the gap? $\text{Gap} = 5,000 - 4,000 = 1,000$ Or $\text{Gap} = \text{Distance } EB$

6. How can the gap be closed?

