

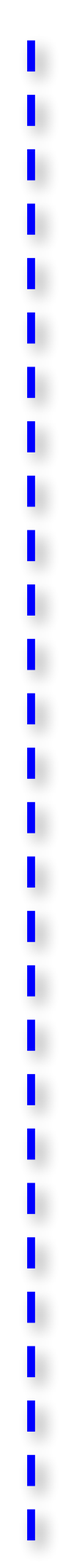
**A**

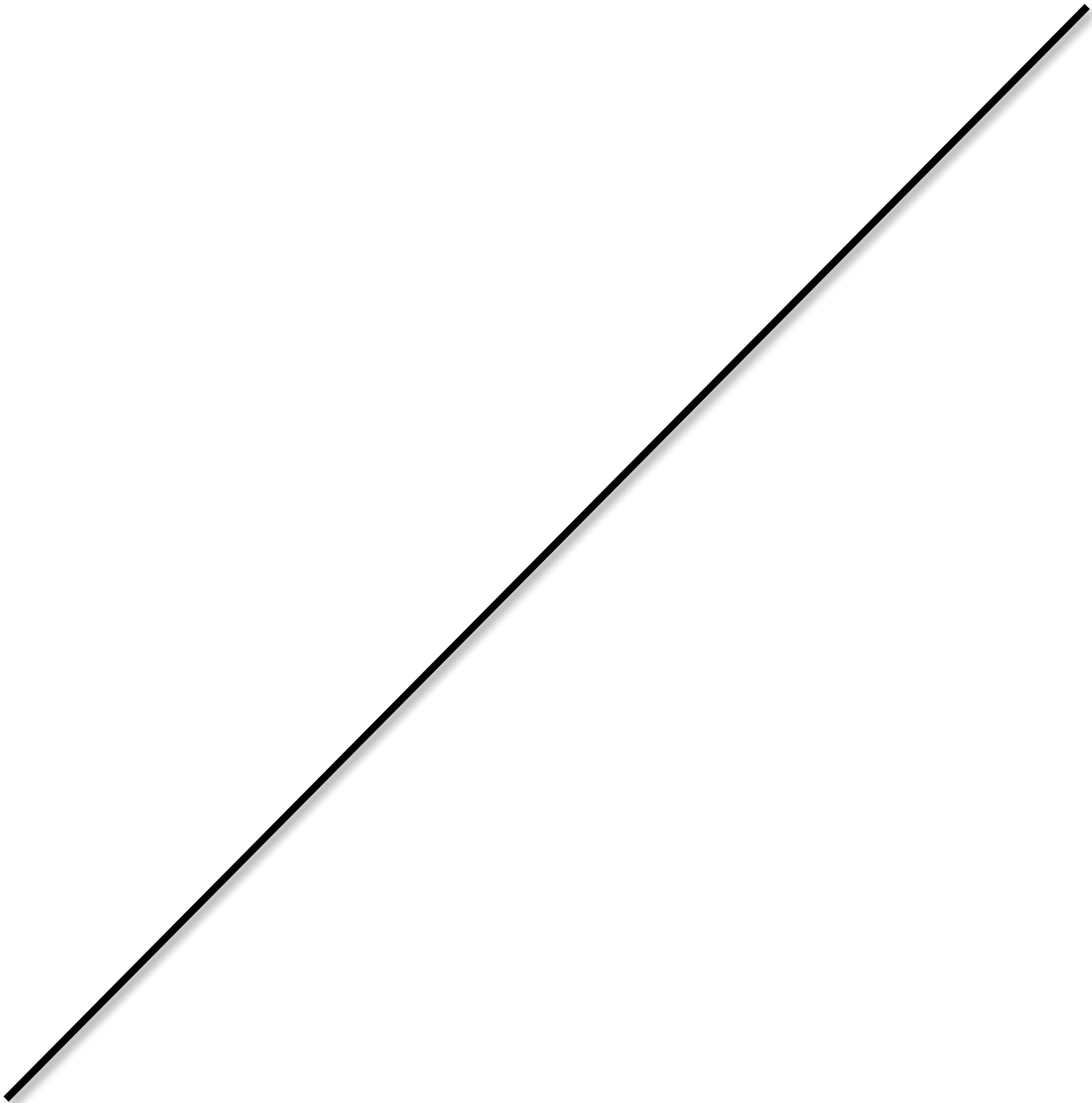
**E**



Equilibrium GDP:

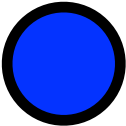
9,000







Equilibrium



AE

# Potential GDP



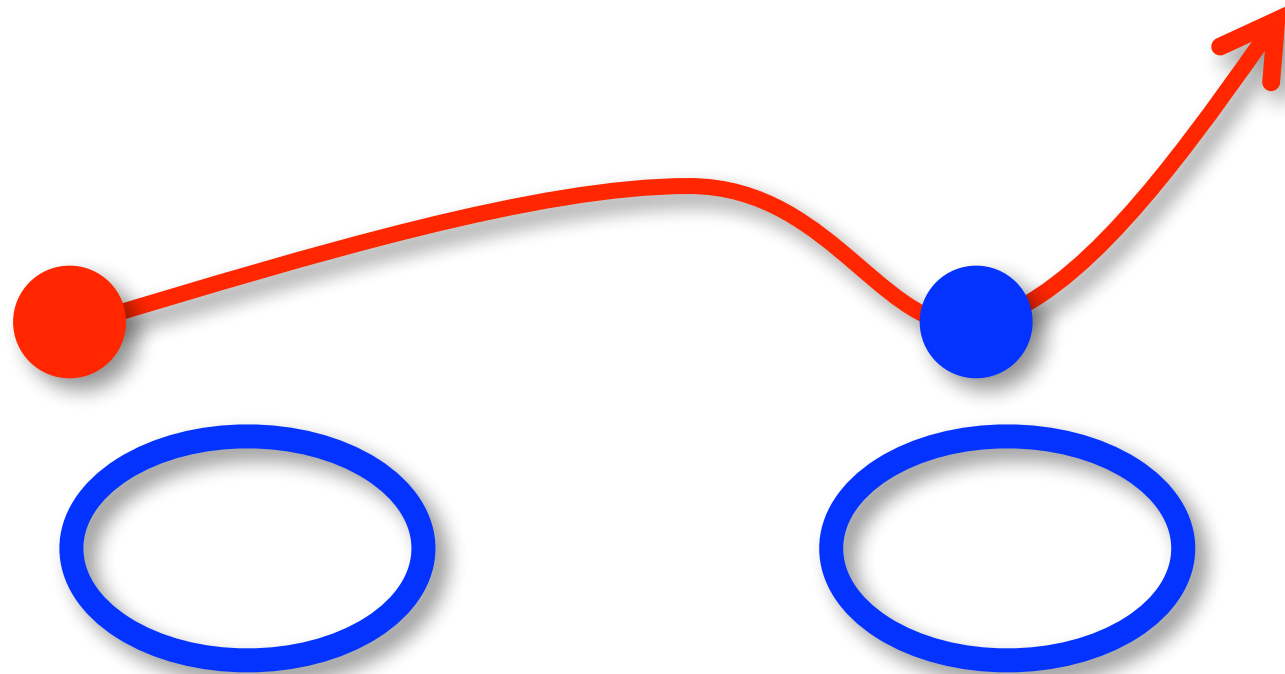
Potential

GDP : 7,000

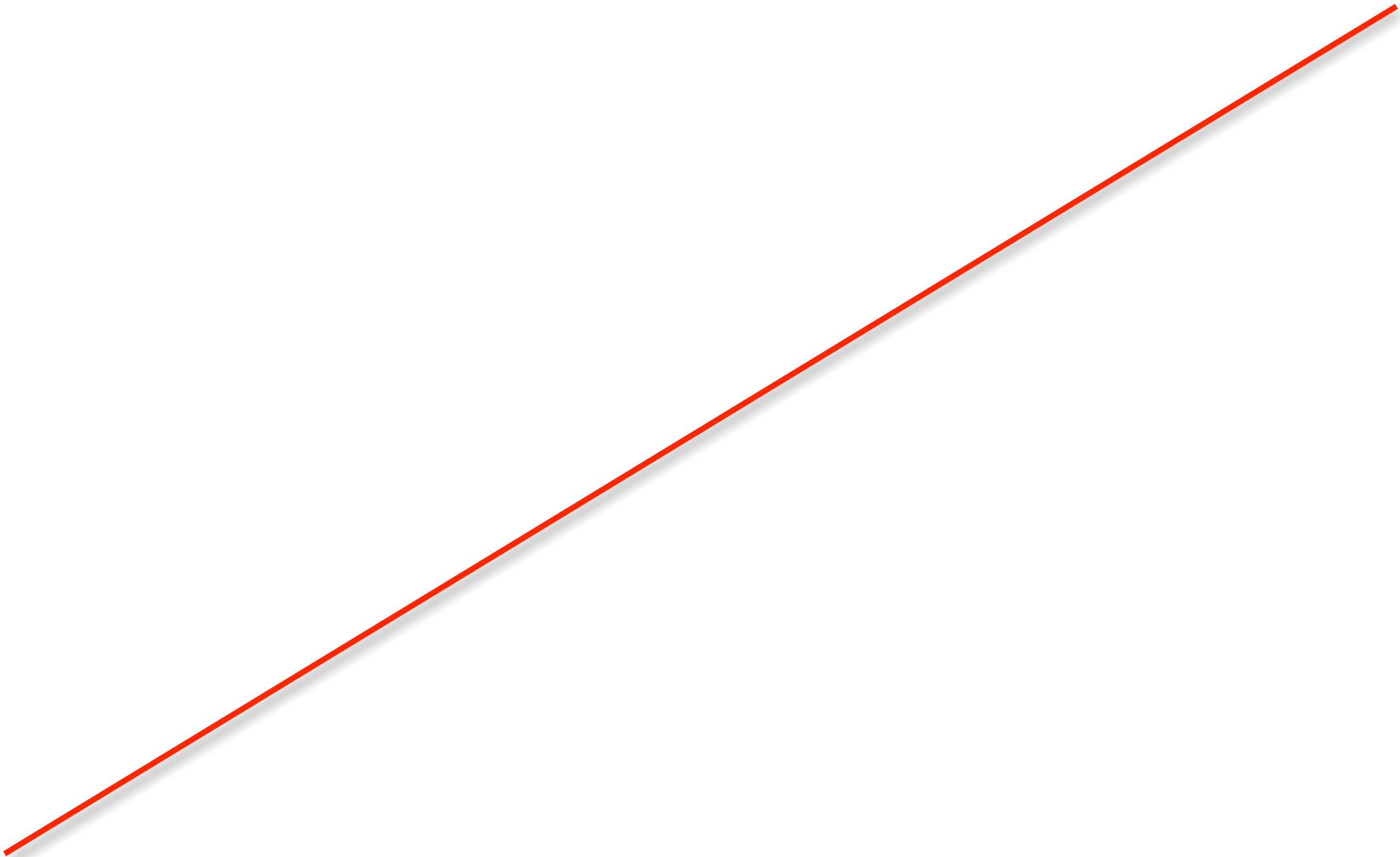


450

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







AE<sub>1</sub>



Inflationary  
Gap



$$\Delta a = -400$$

The Government must  
increase Taxes by 500 in  
order to close a 2,000  
Inflationary Gap

If taxes increase by 500,  
Disposable Income decrease  
by 500 and Consumption  
decrease by  $500 \times \text{MPC} =$   
 $500 \times 0.8 = 400$

