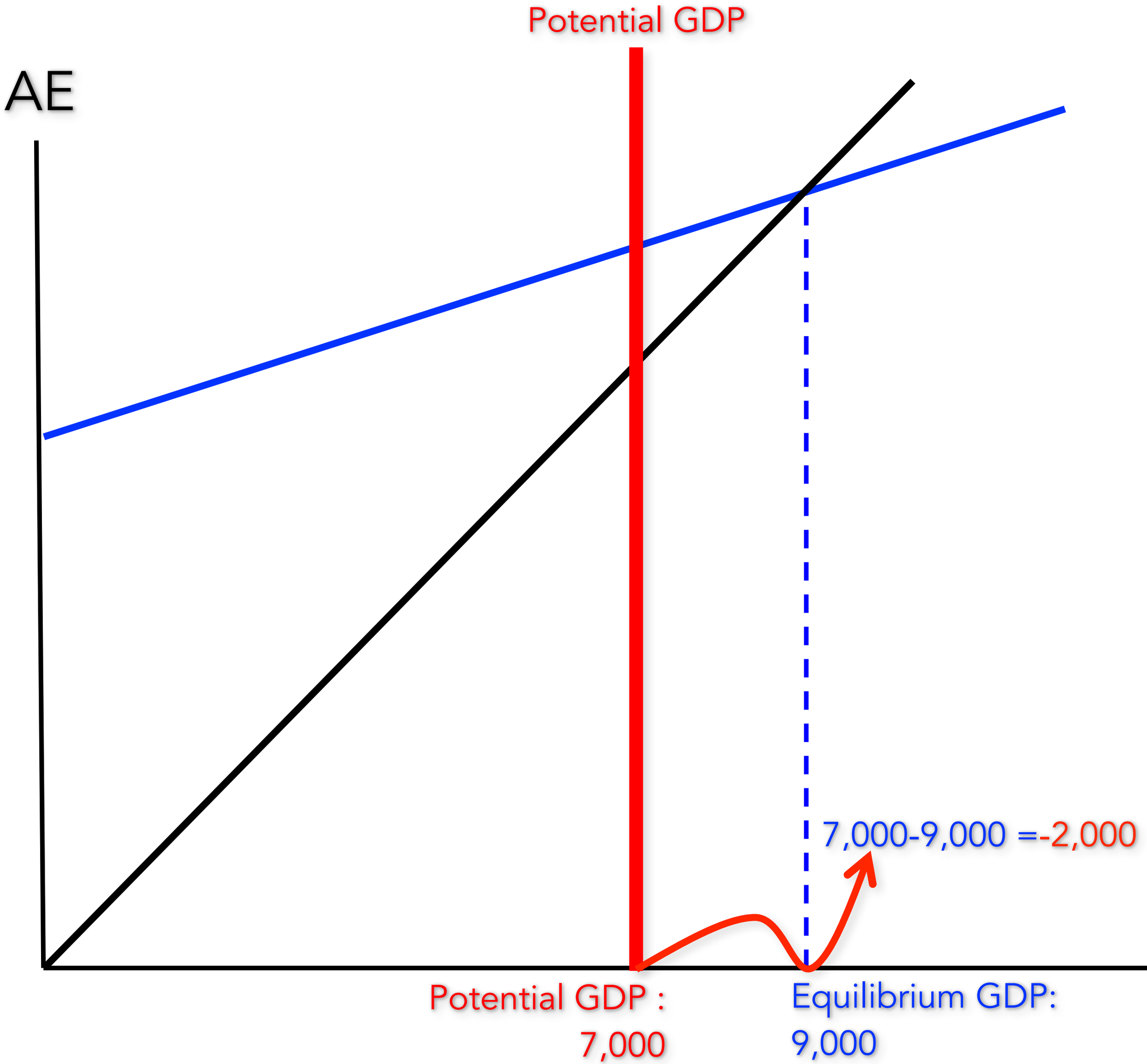
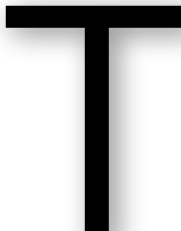
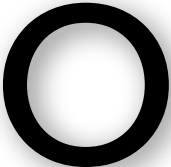

Potential GDP
AE
7,000-9,000 =-2,000
Potential GDP :
7,000
Equilibrium GDP:
9,000





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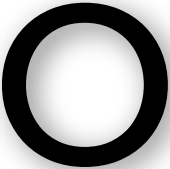

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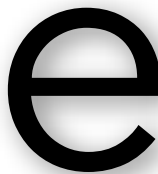

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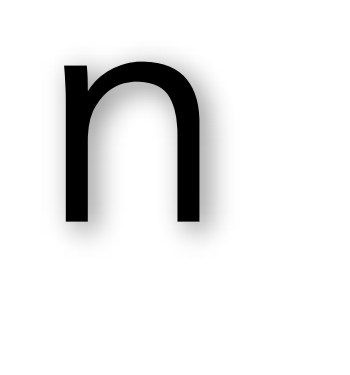
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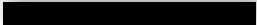

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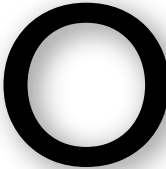

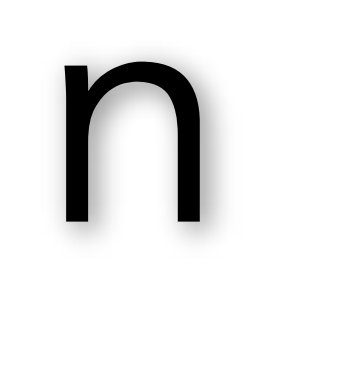
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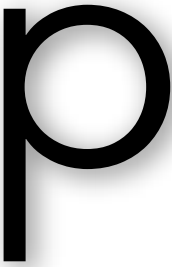


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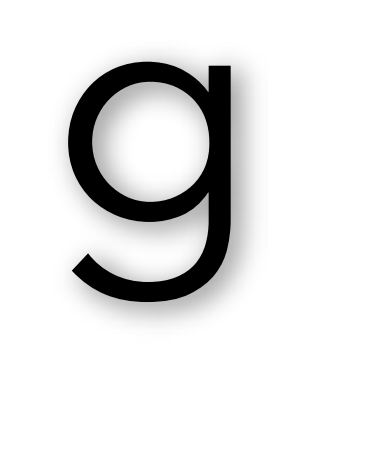

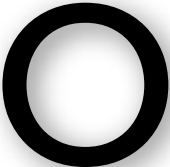

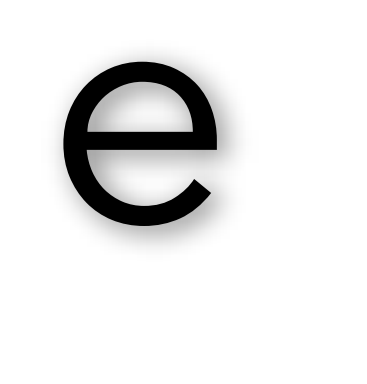

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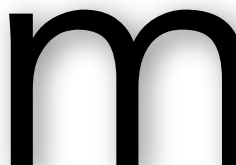

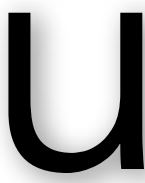

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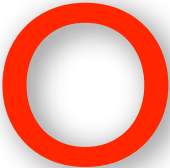

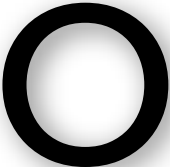

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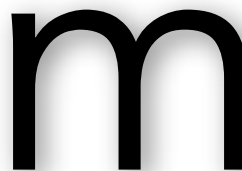

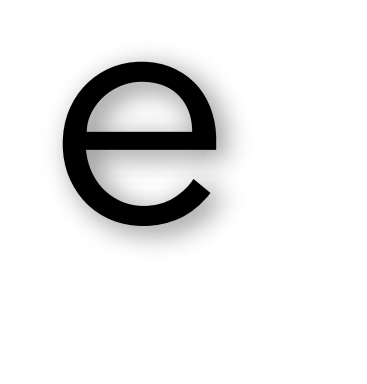

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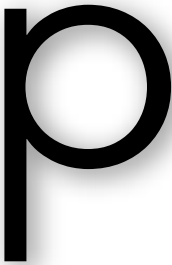

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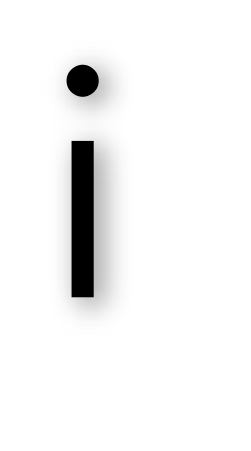

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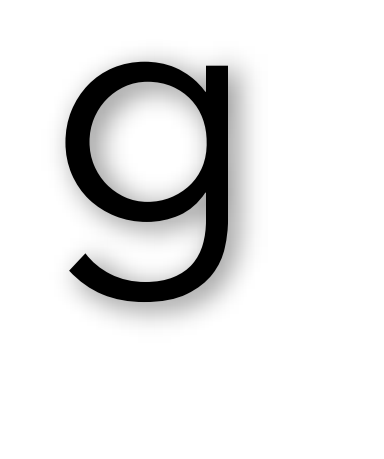

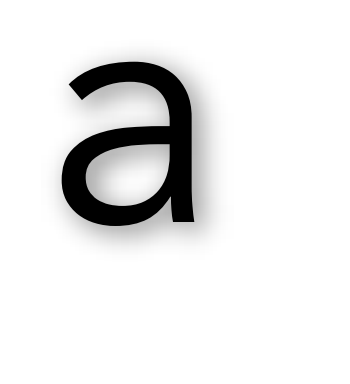
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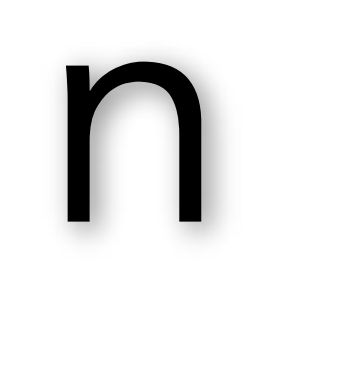
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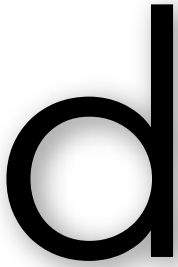

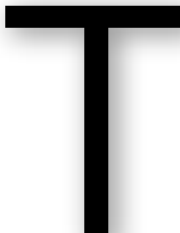

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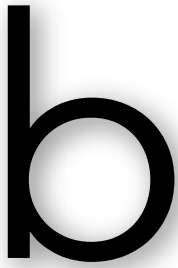

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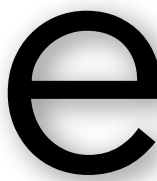


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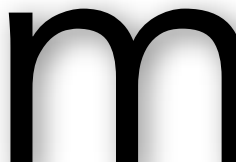

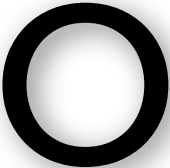

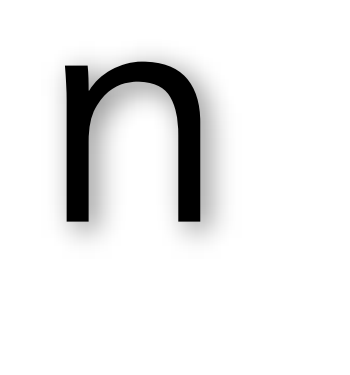
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The Government must decrease both Taxes and Government Spending by 2,000 in order to close a 2,000 Inflationary Gap

If taxes decrease by 2,000, Disposable Income increase by 2,000 and Consumption increase by

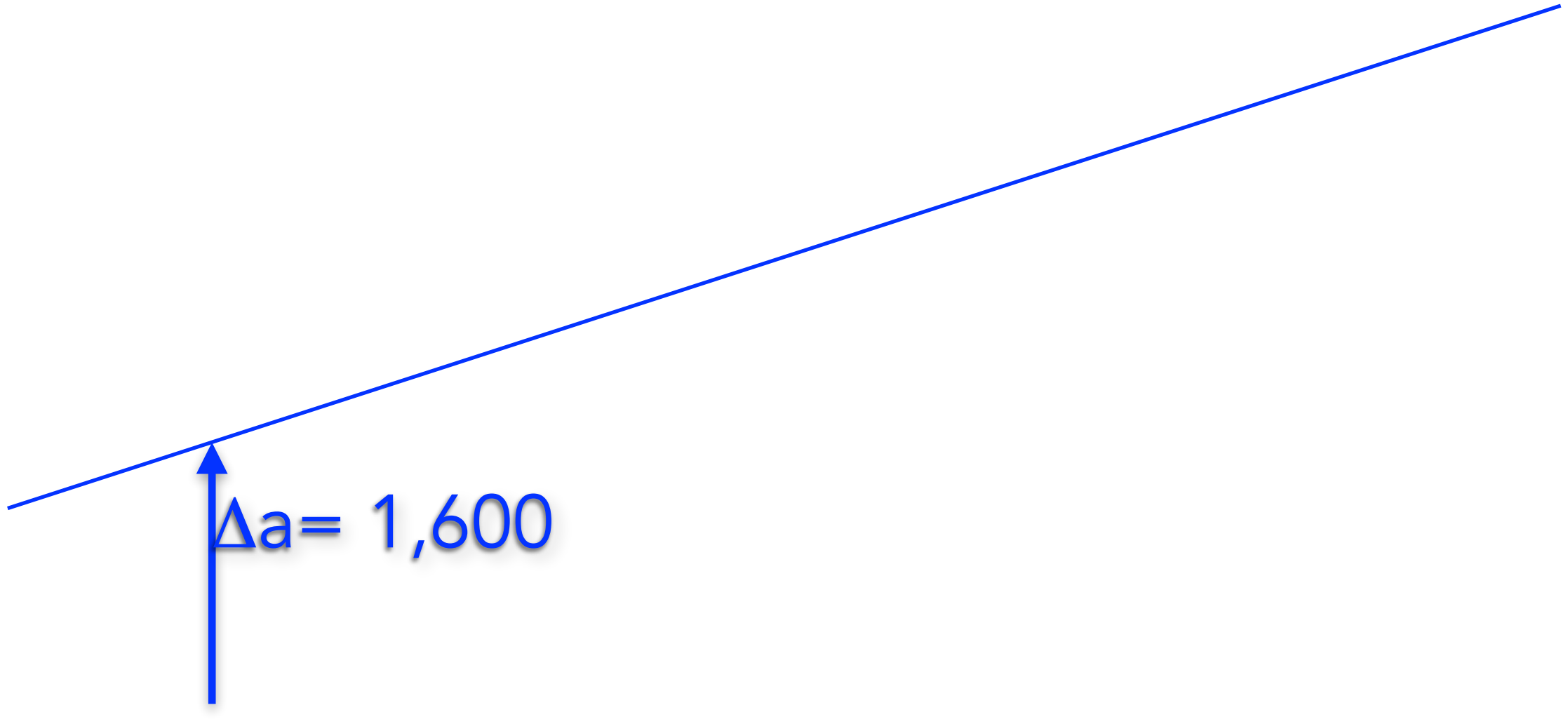
2,000 x MPC = 2,000 x 0.8 = 1,600

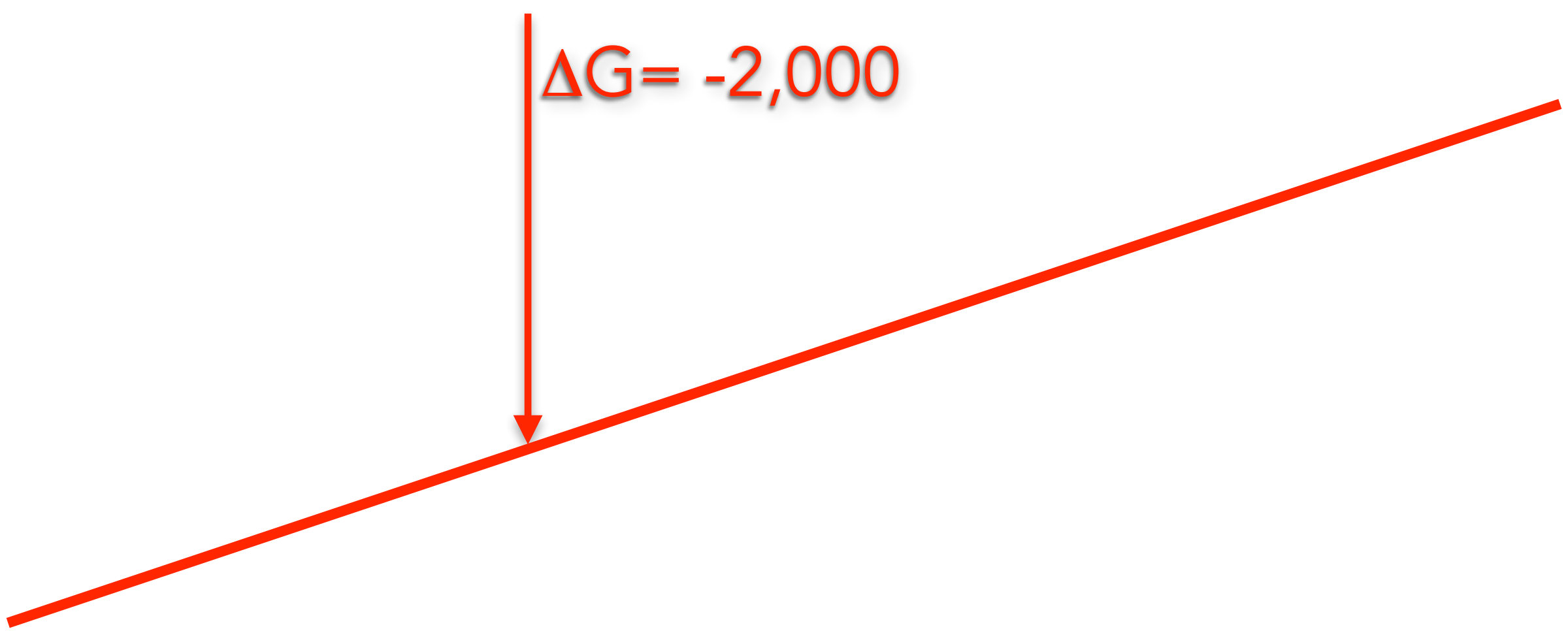
Δa= +1,600 The AE line shifts up by 1600

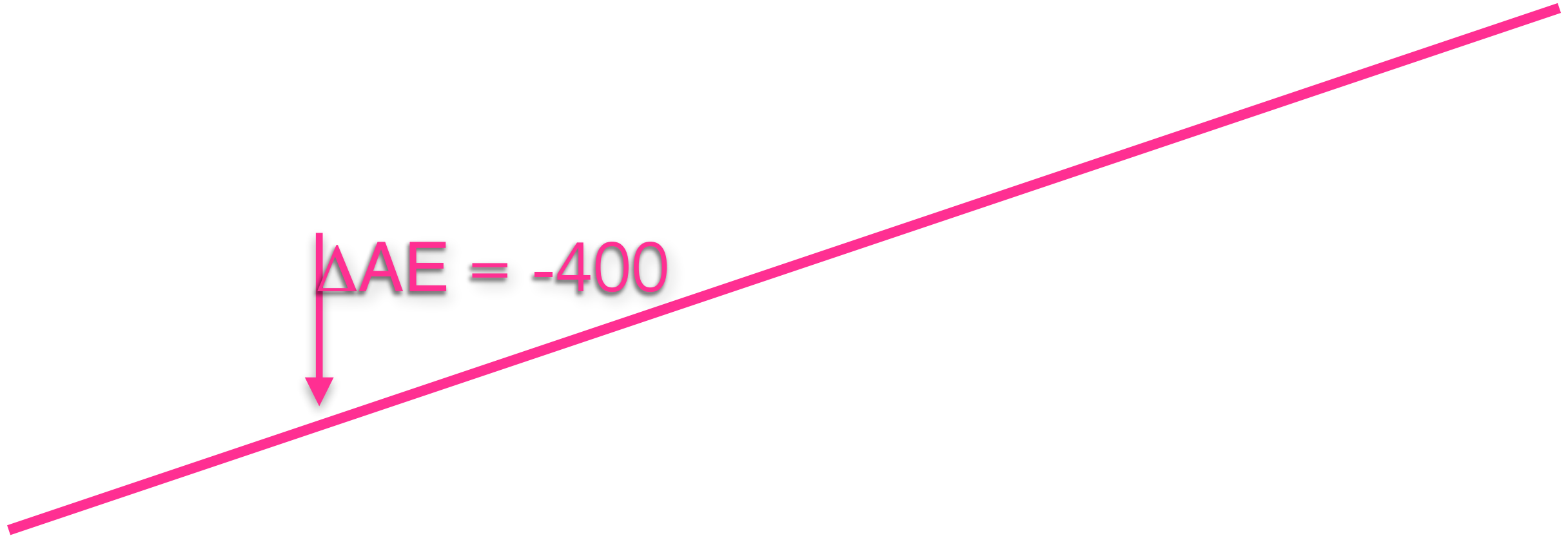
If Government Spending decrease by 2,000

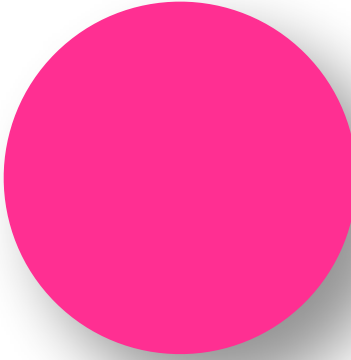
ΔG= -2,000, the AE line shifts down by 2,000

The net effect of decreasing G and T by 2,000 is a net decrease of 400: the AE line shifts down by 400


Δa= 1,600


ΔG= -2,000


ΔAE = -400



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

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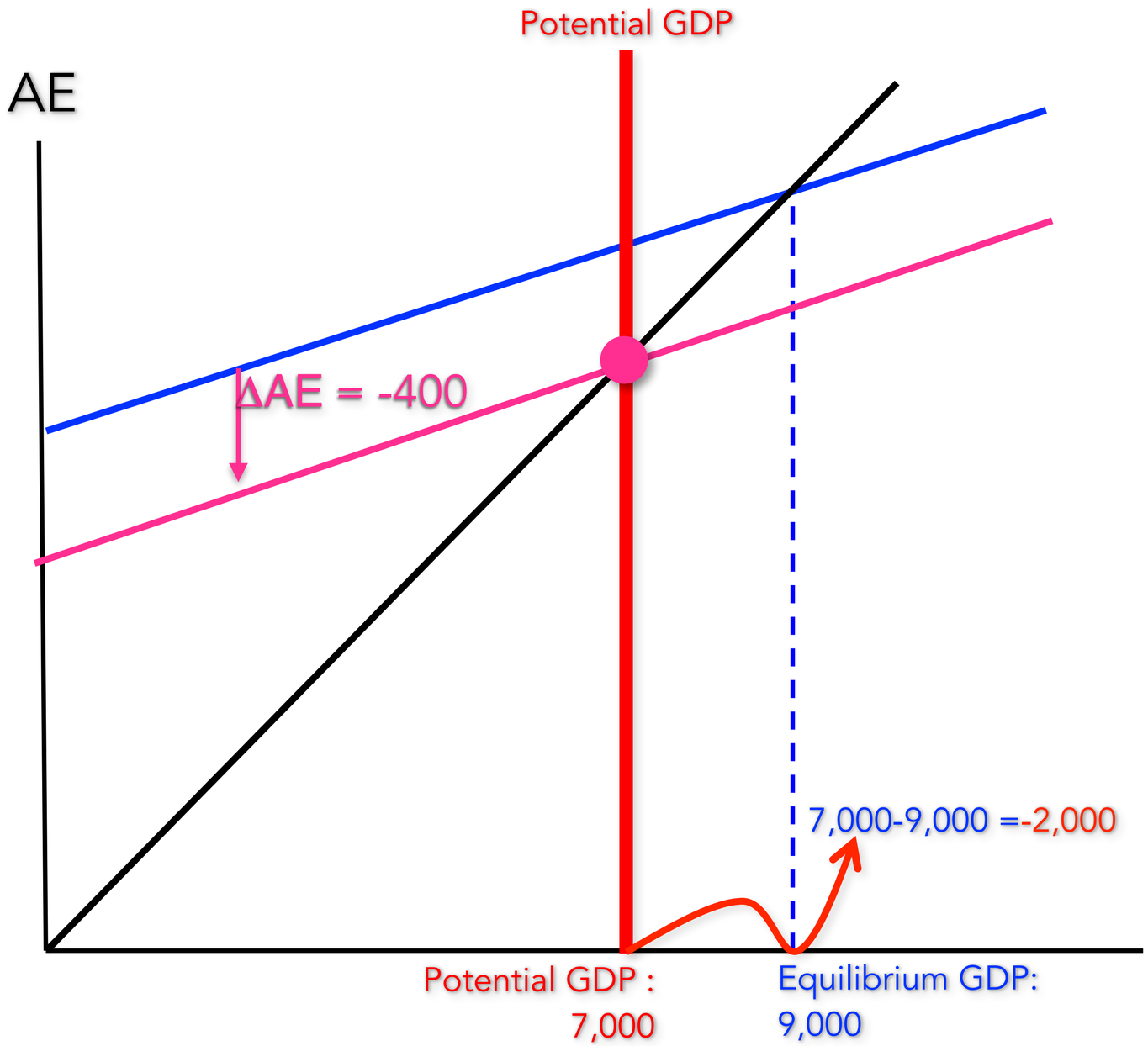

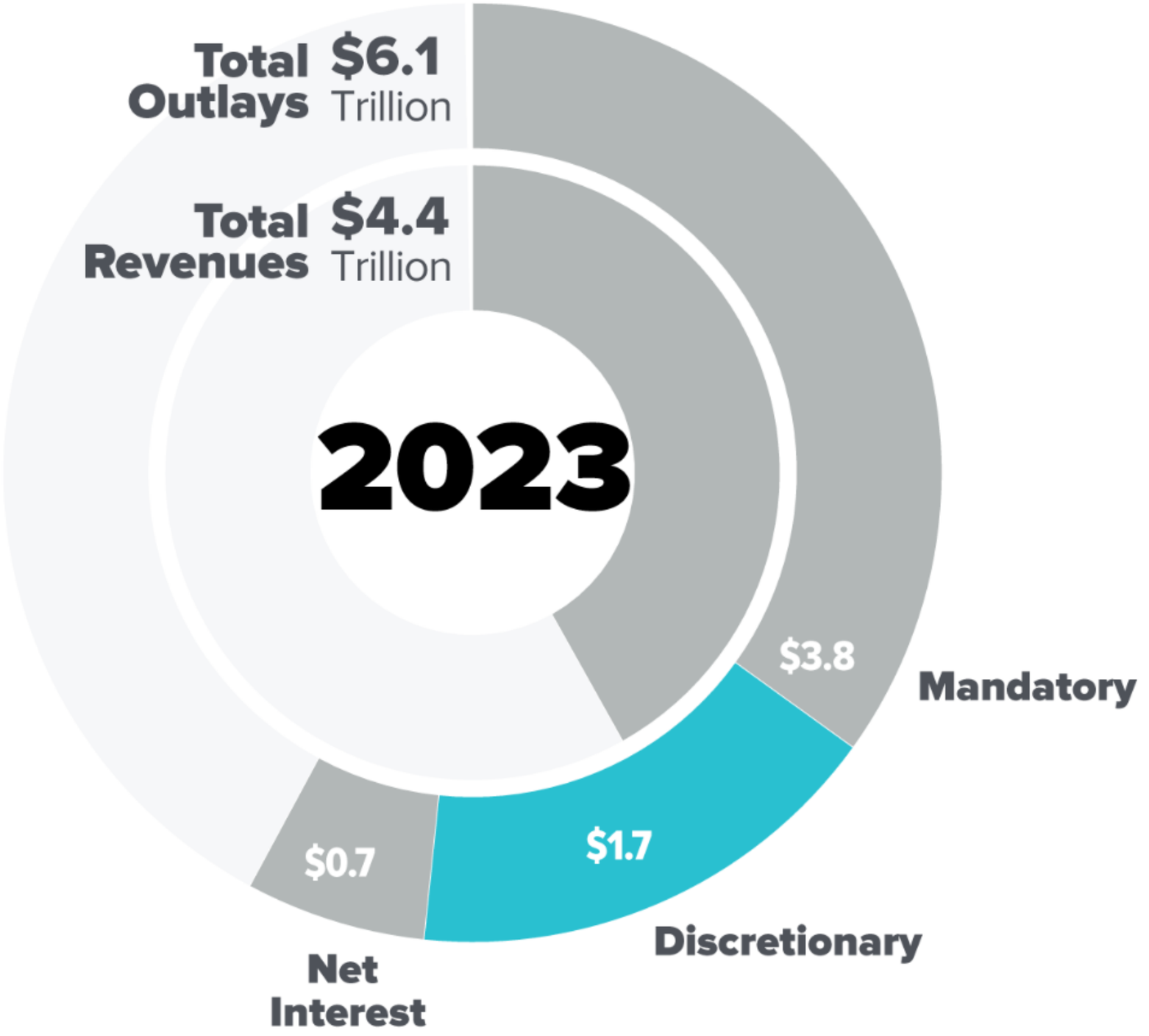
Total Outlays $6.1 Trillion
Total Revenues $4.4 Trillion
2023
$3.8
Mandatory
$1.7
Discretionary
$0.7
Net Interest