

1. GDP = ?

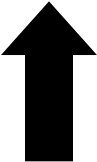
2. Is total spending **larger** than **smaller** than/equal to Output?

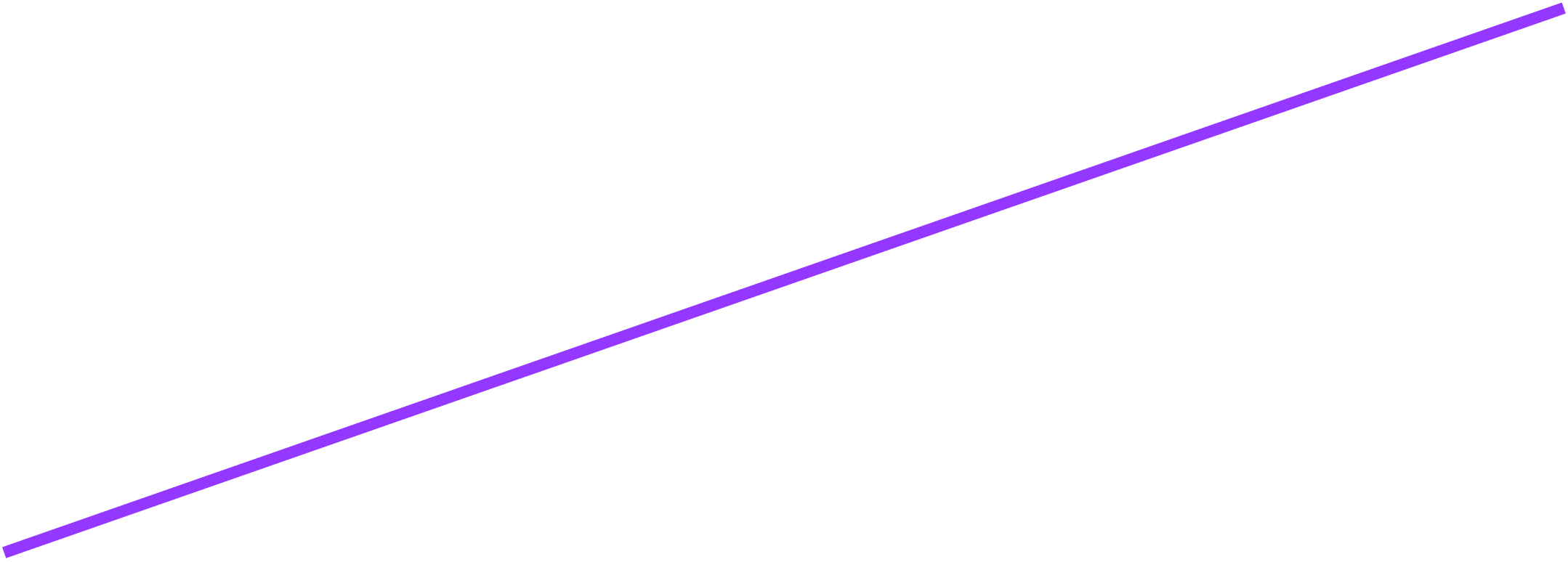
3. Do Inventories **fall**, **rise** or remain unchanged?

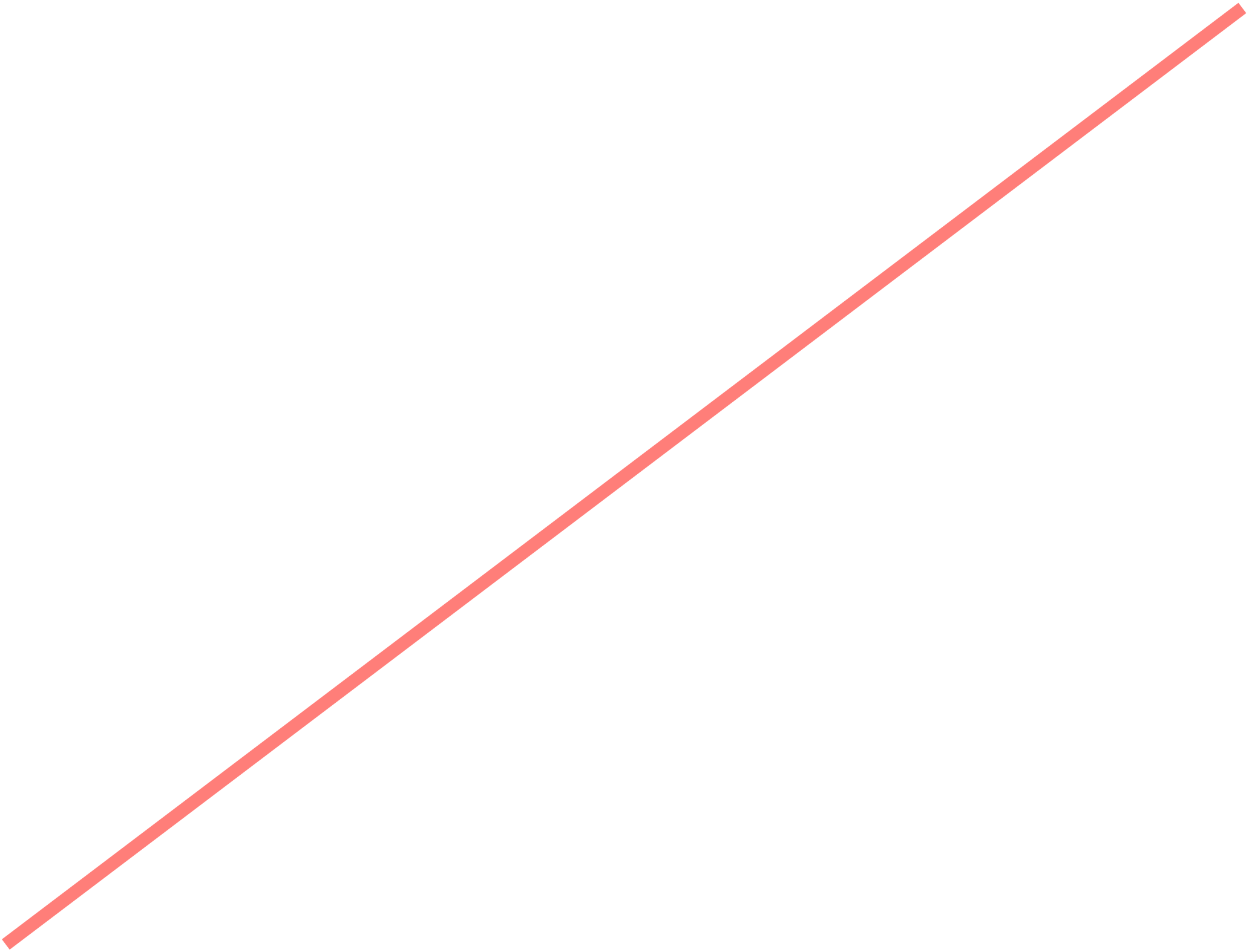
4. Does the economy experience a recessionary/inflationary gap?

5. What is the size of the gap?

6. How can the gap be closed?







AEo







GDP=4,000

$$AE = 4,000$$

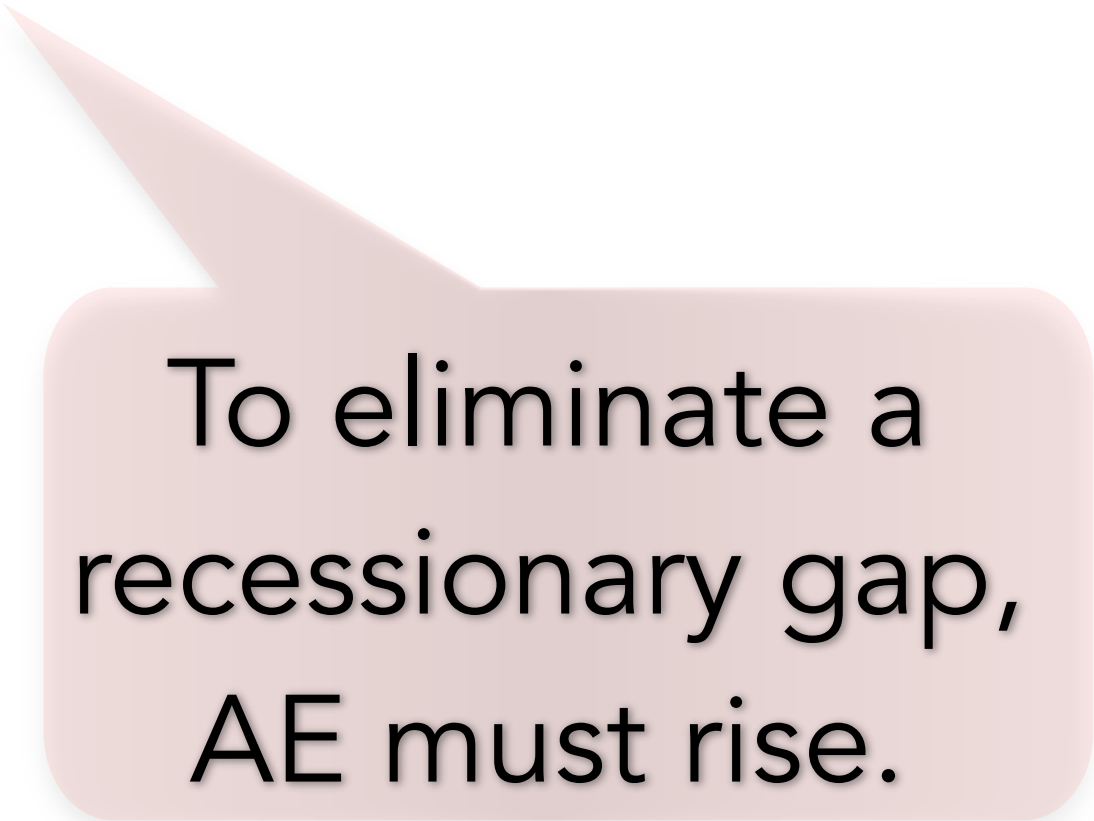
GDP=5,000







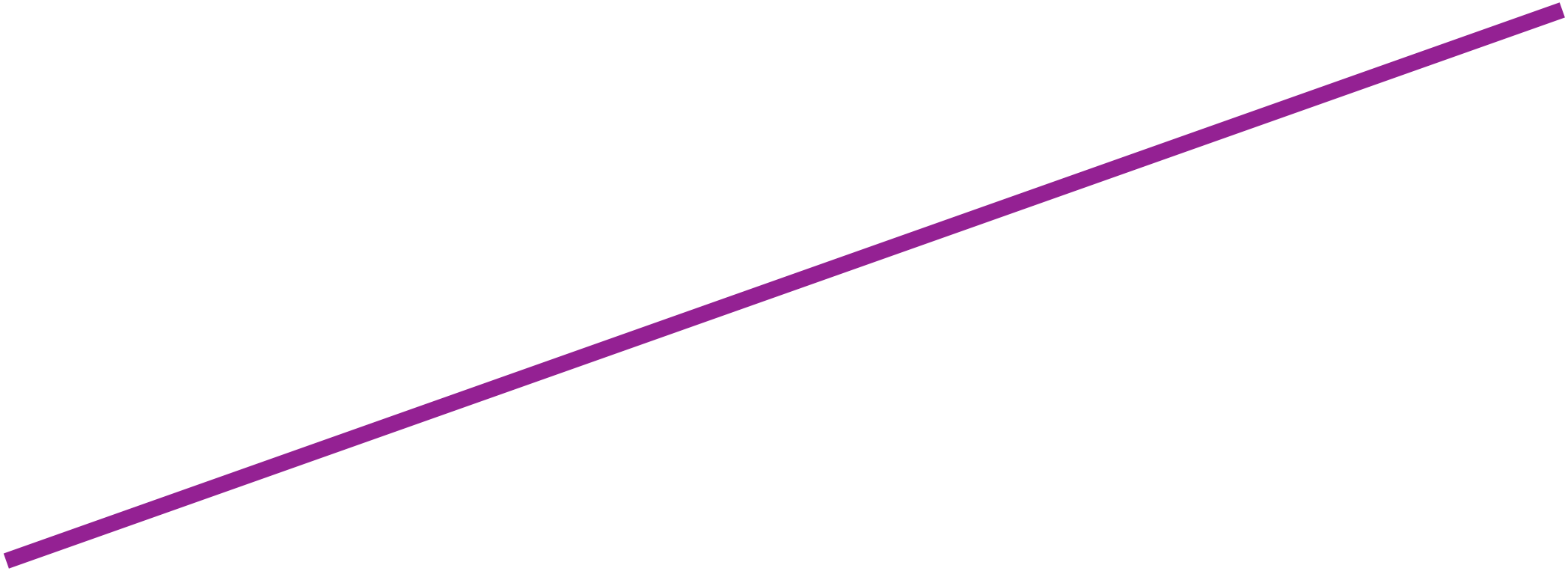
$$\text{Gap} = 5,000 - 4,000 = 1,000$$



To eliminate a
recessionary gap,
AE must rise.

Assume the
Economy is at
Equilibrium

Output



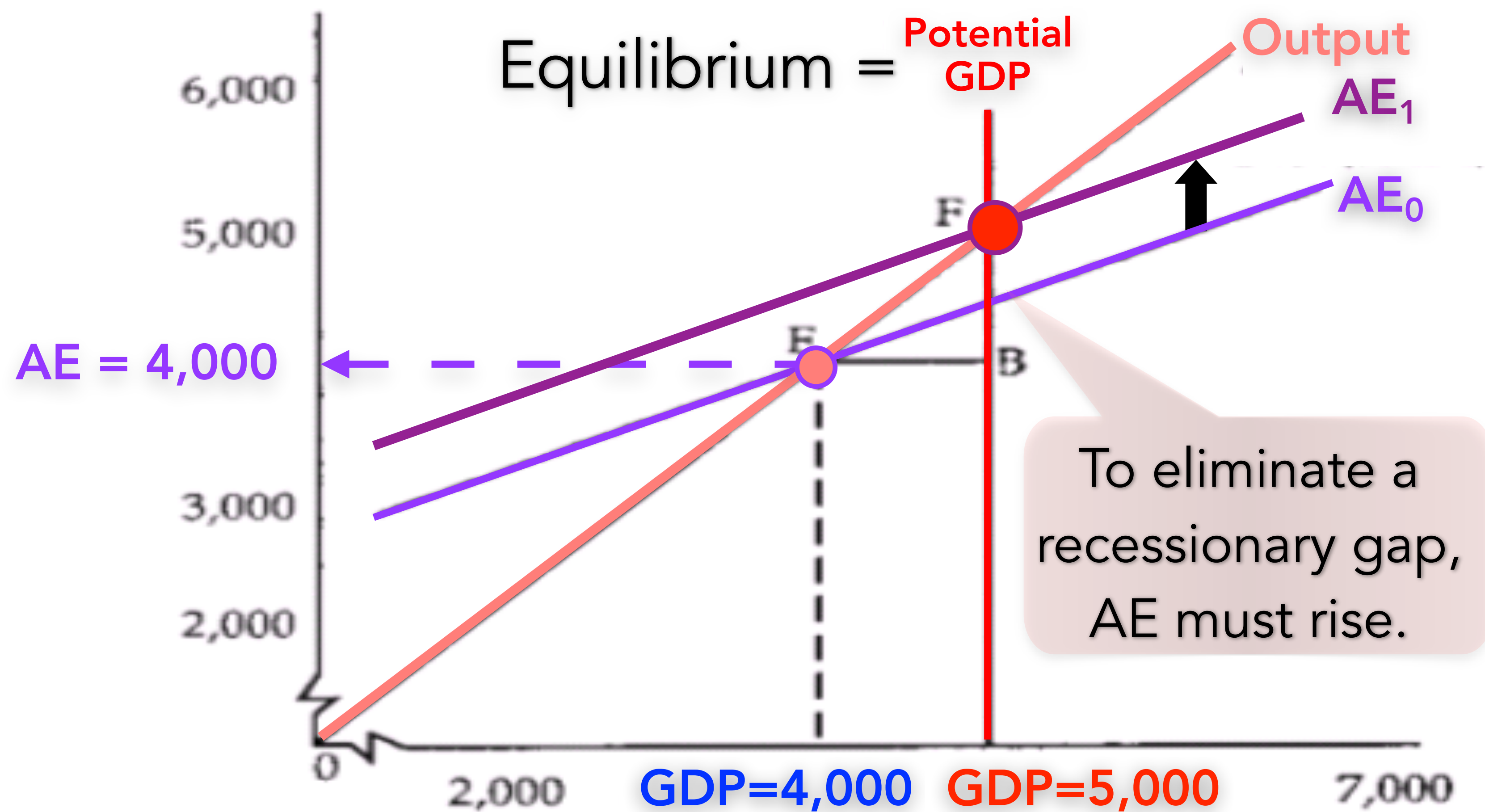
AE₁

Potential
GDP

Equilibrium =



Or **Gap = Distance EB**



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? **Gap = 5,000 - 4,000 = 1,000** Or **Gap = Distance EB**
6. How can the gap be closed?

