



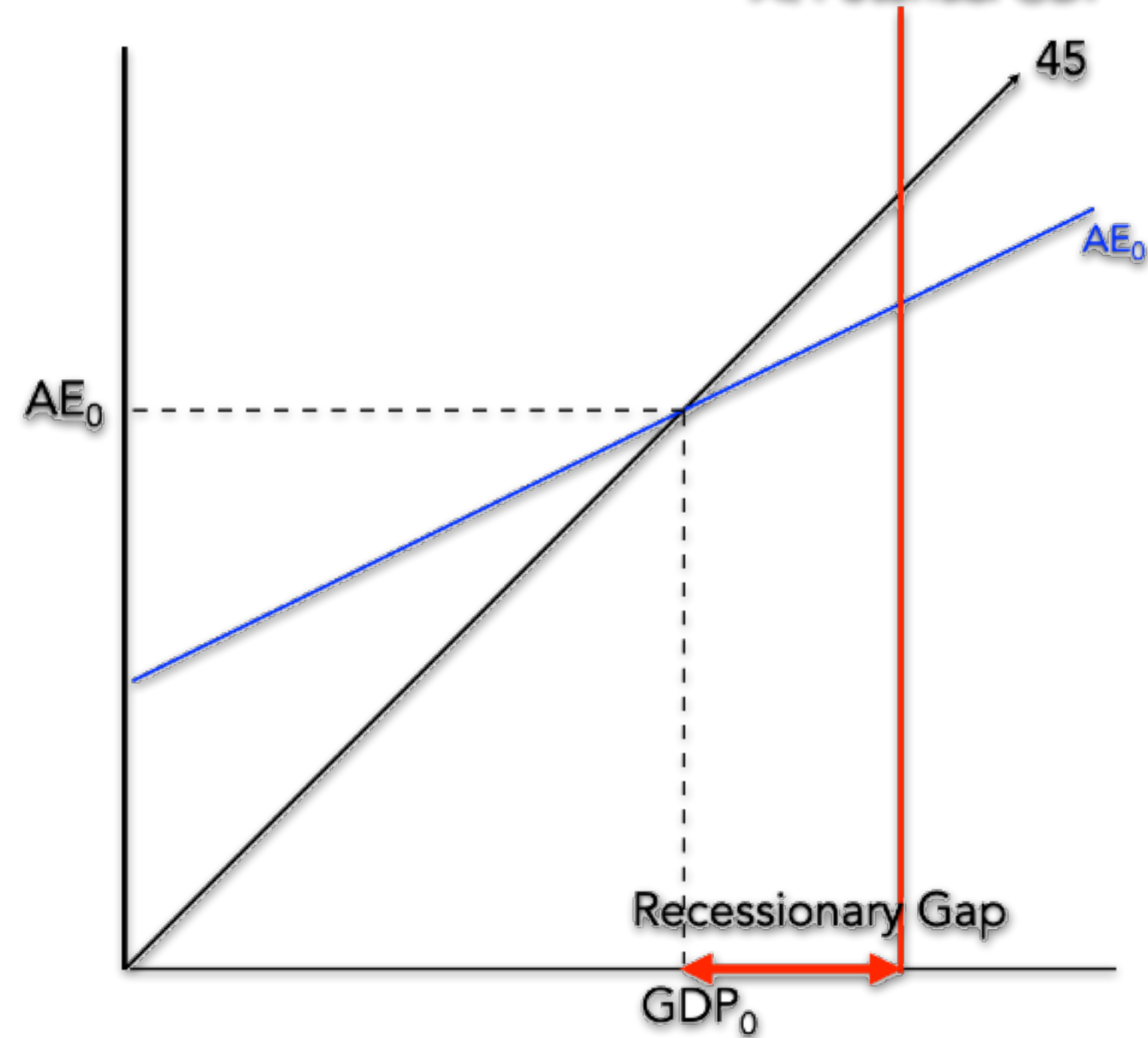
To close a **Recessionary** Gap, Aggregate Expenditures and Aggregate Demand must **increase**

1. Decrease Taxes and/or Increase Transfers to increase Consumption

# 2. Increase Government Spending

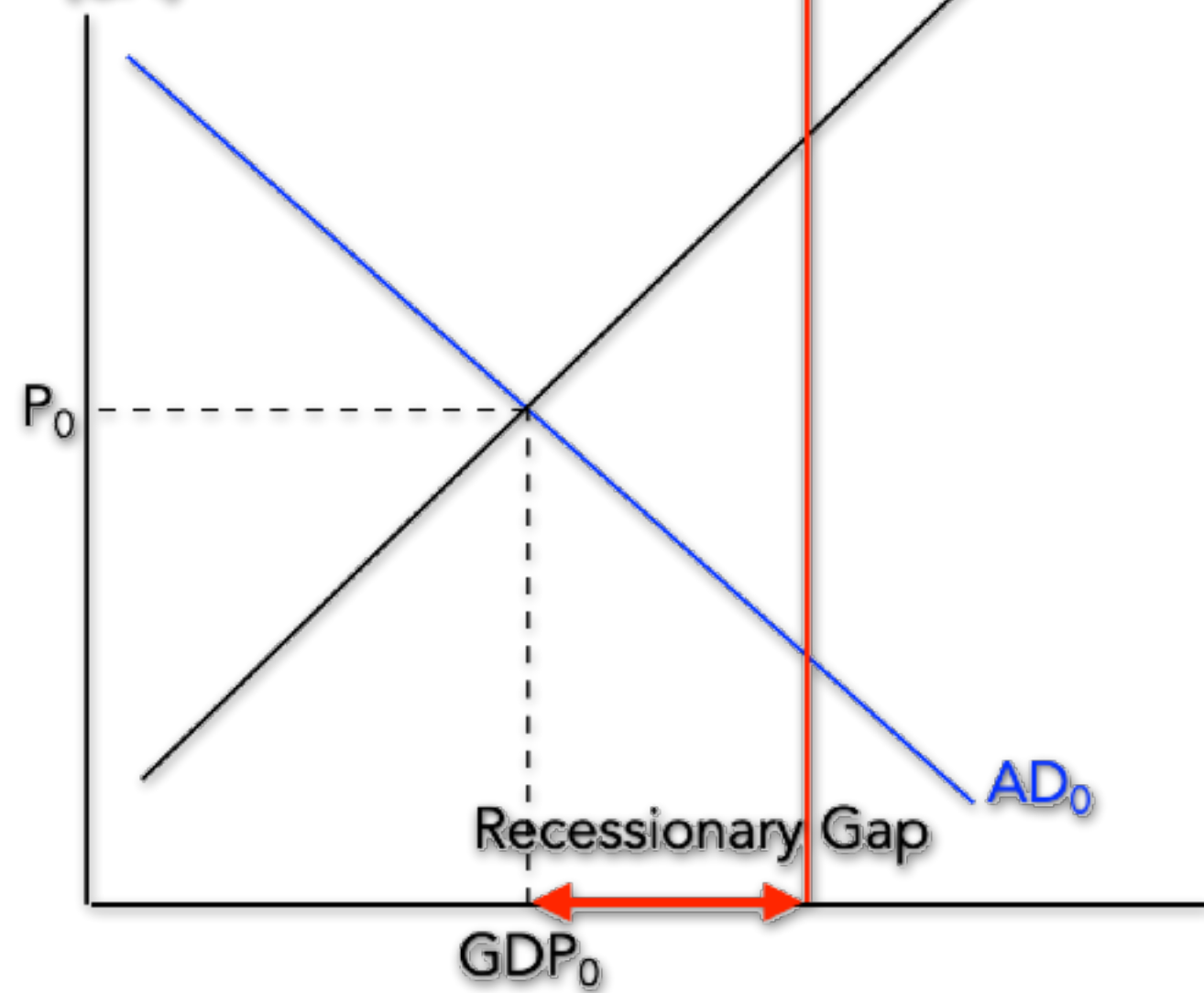
Expansionary Policy

At Potential GDP



At Potential GDP

Price Level  
(CPI)



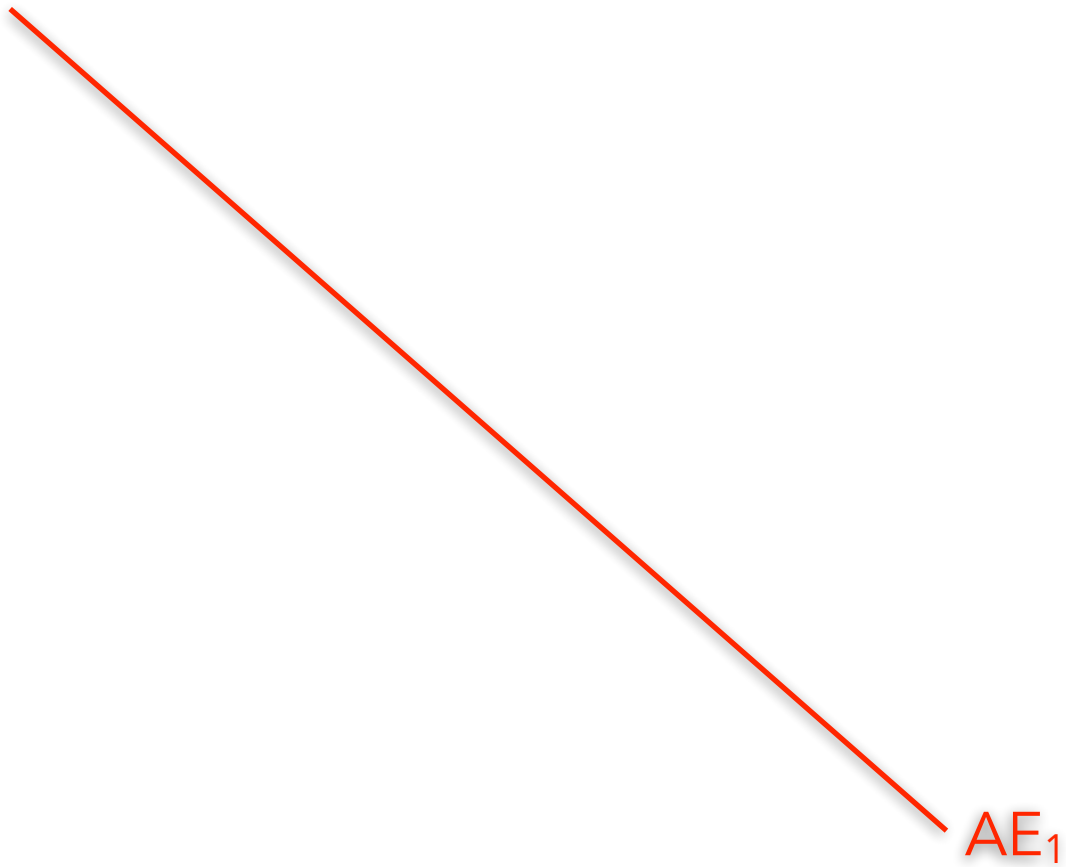
3. **Buy bonds** to increase the Money Supply and cause a drop in all interest rates to promote an increase in Investment

3. Decrease interest rates to increase investment

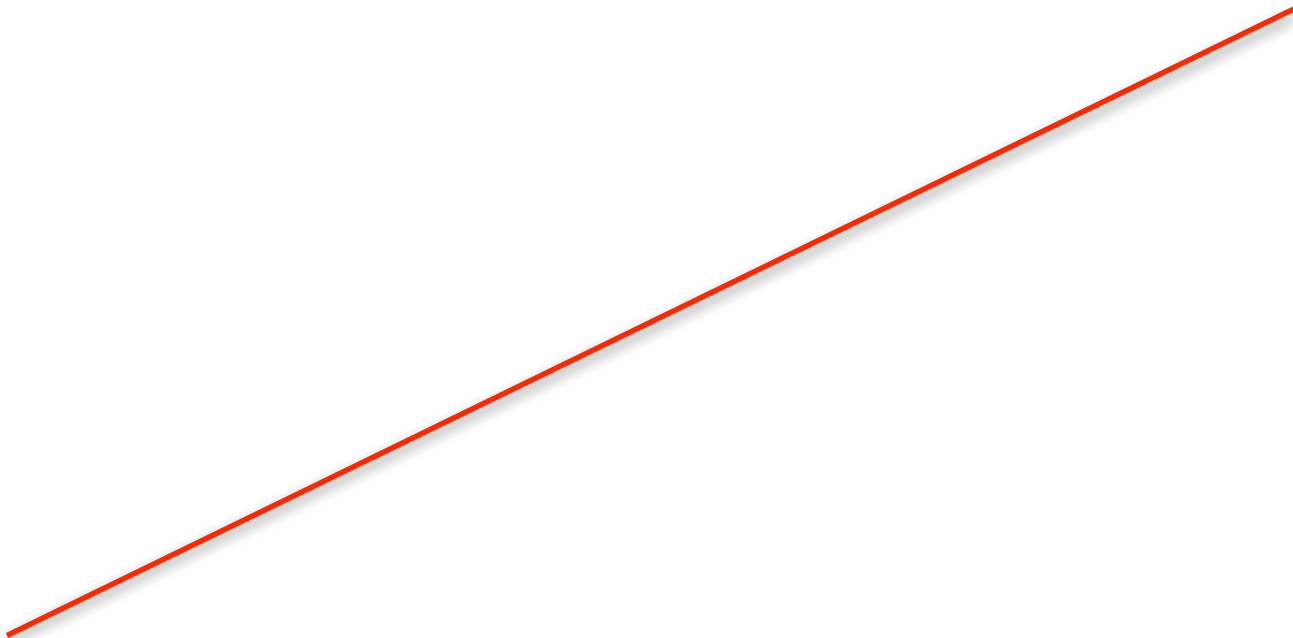


Expansionary Fiscal Policy

Expansionary Monetary Policy



$AE_1$



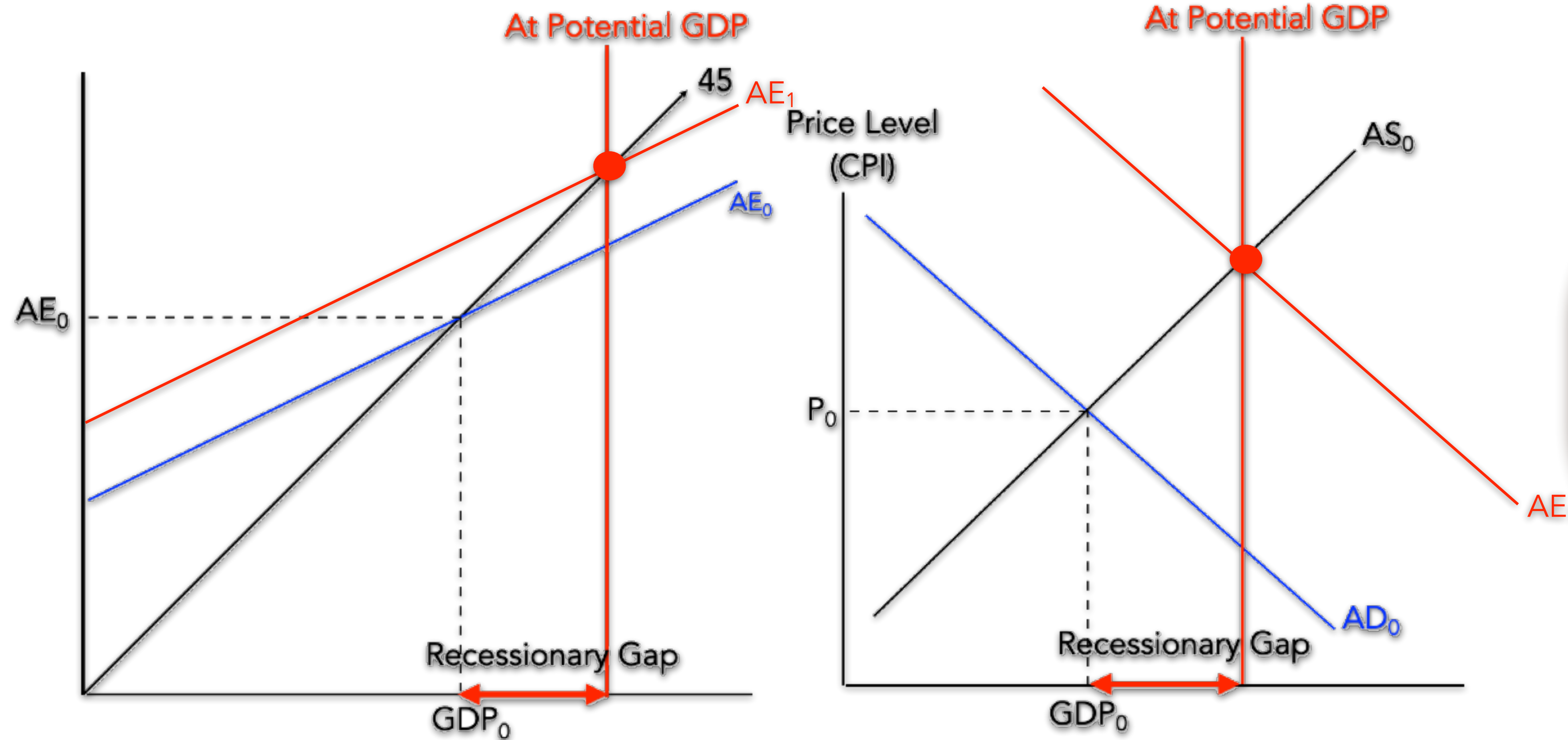






Neither the Fed nor  
the Government can  
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# Expansionary Policy



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Expansionary Fiscal Policy

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