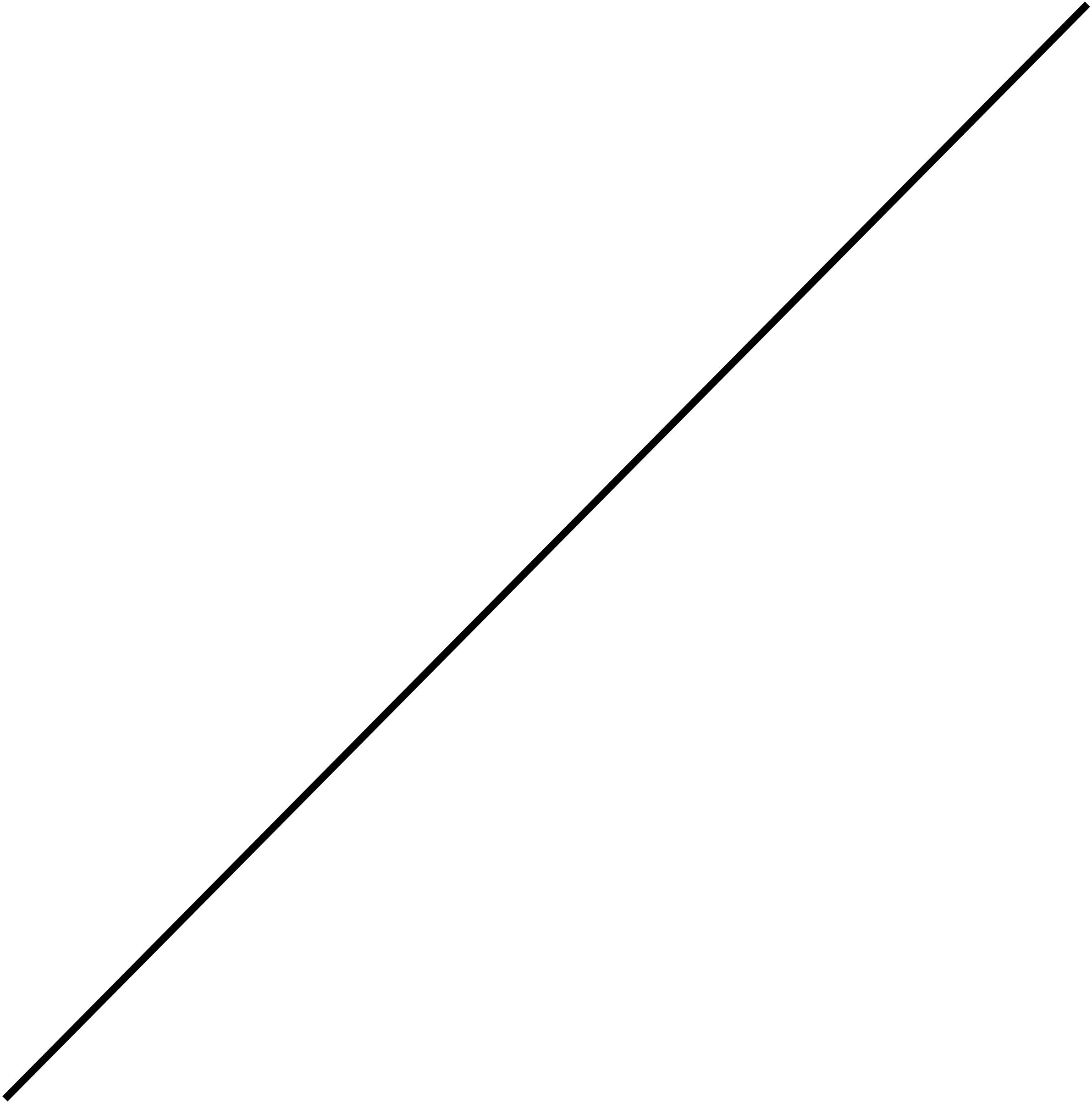




Equilibrium GDP:

9,000







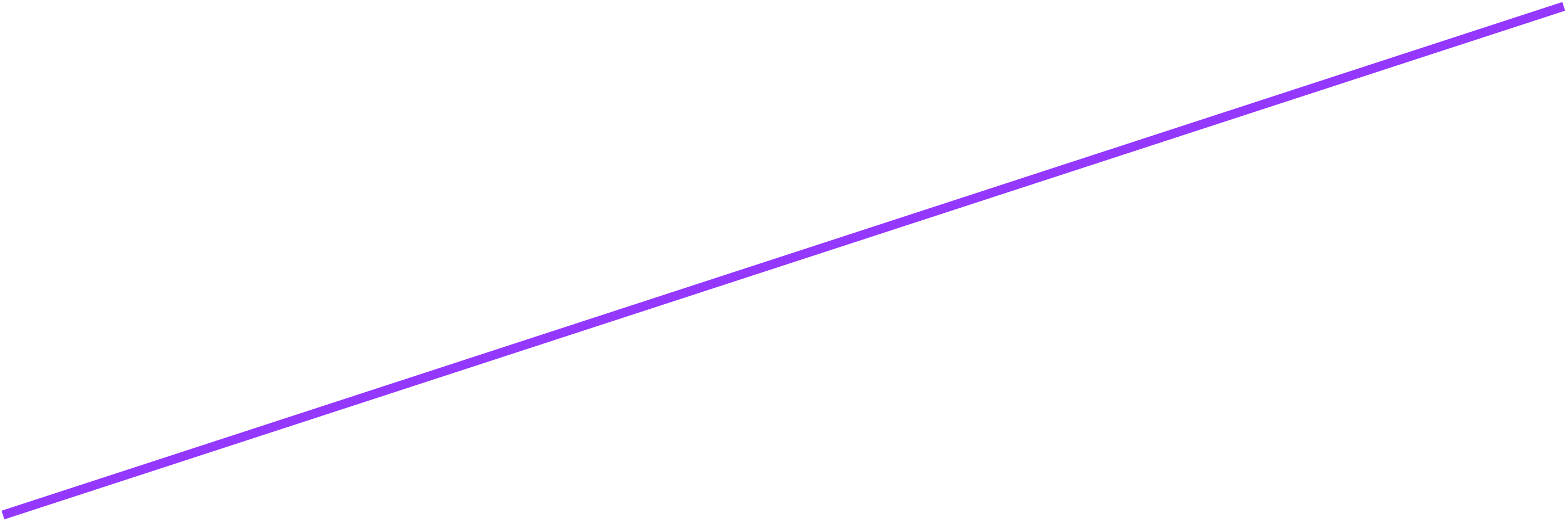
AE0

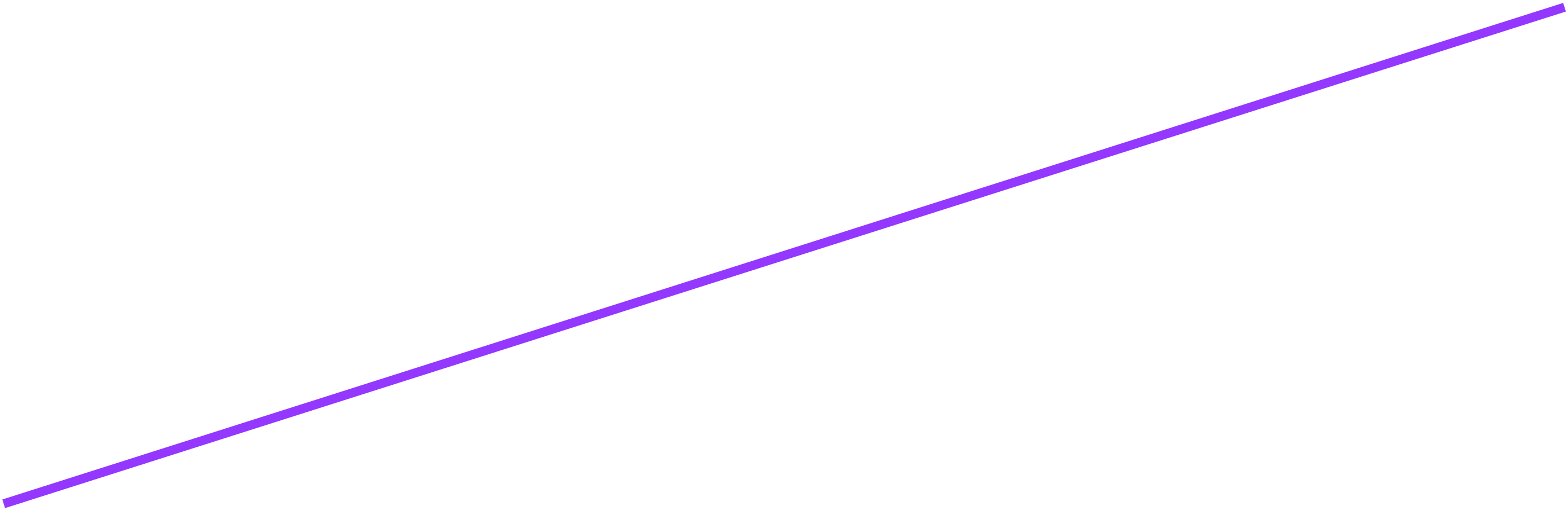
Potential
GDP

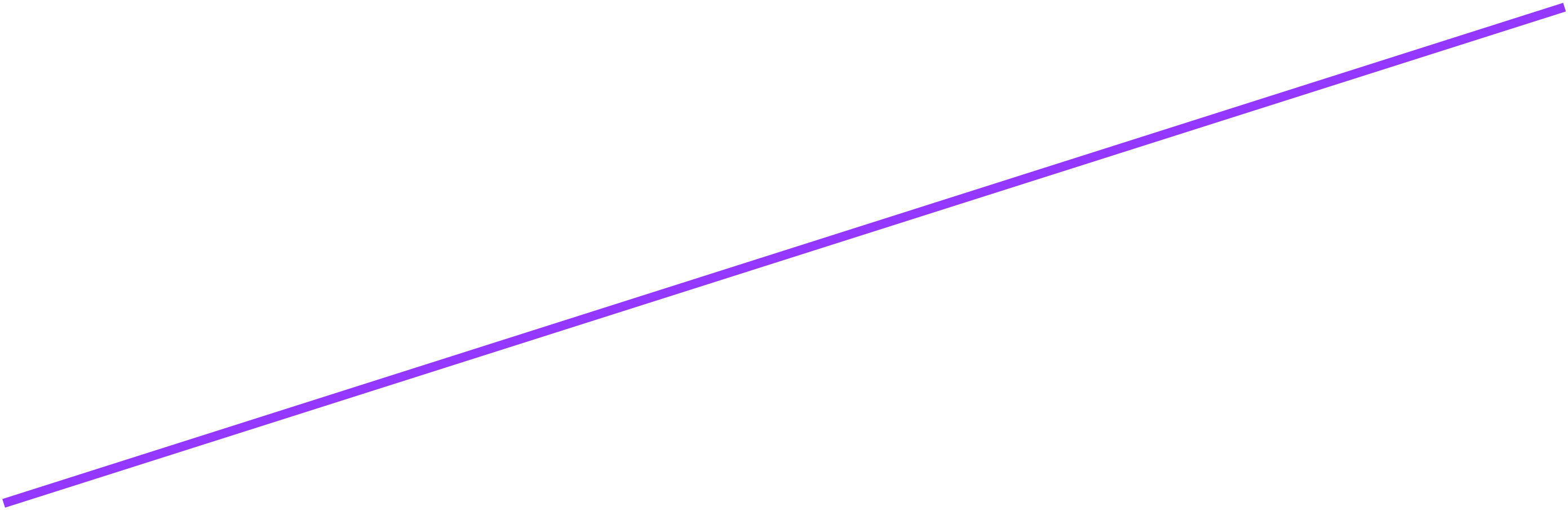


Potential

GDP : 7,000







AE1

To eliminate an
Inflationary gap, AE
must fall

Equilibrium =



Government Policy

To decrease C : Increase Taxes or decrease Transfers

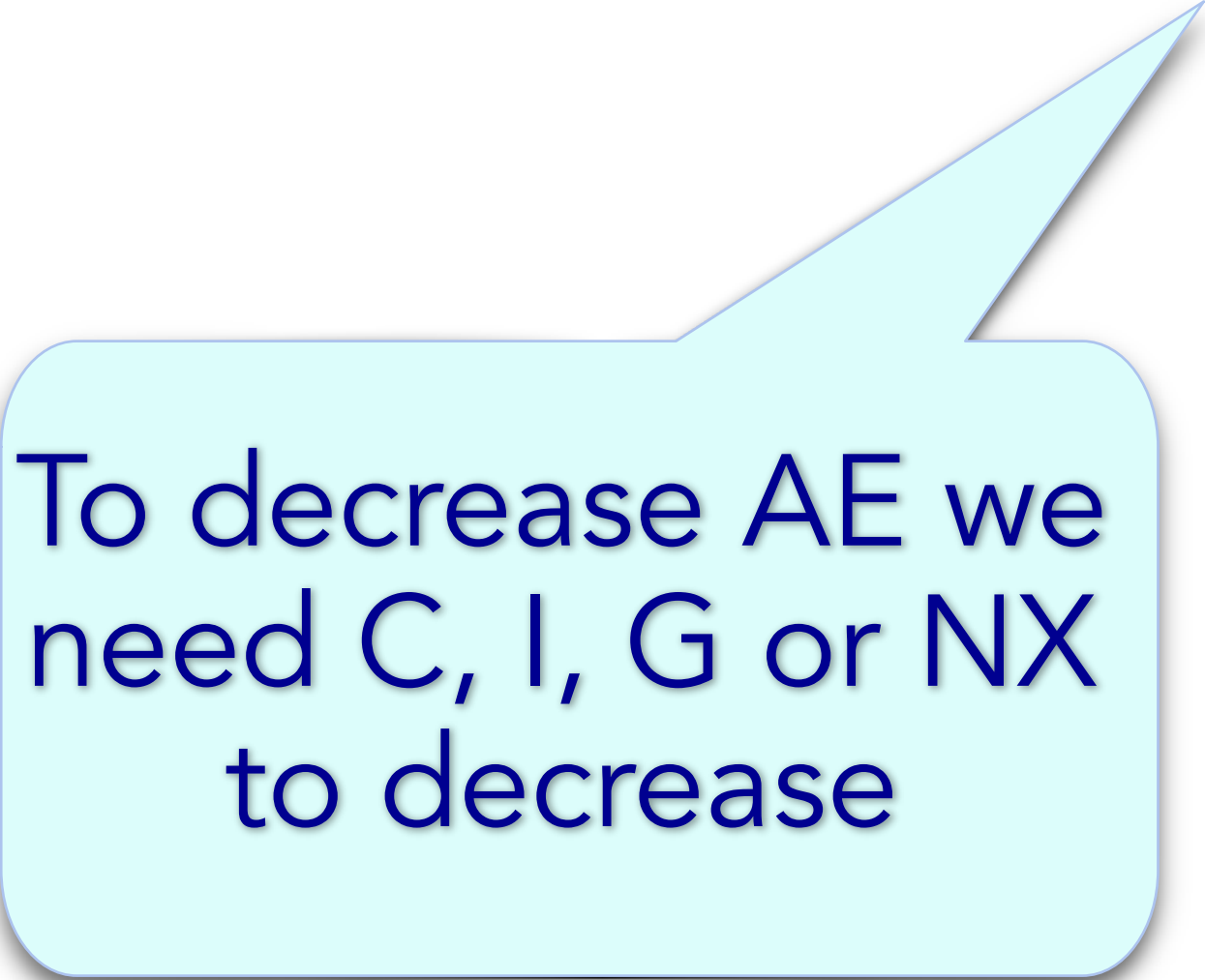
To decrease I : increase interest rates

Government may decrease spending or

To decrease NX make the dollar stronger to increase M and decrease X

45°





To decrease AE we
need C, I, G or NX
to decrease

Equilibrium



Inflationary
Gap

