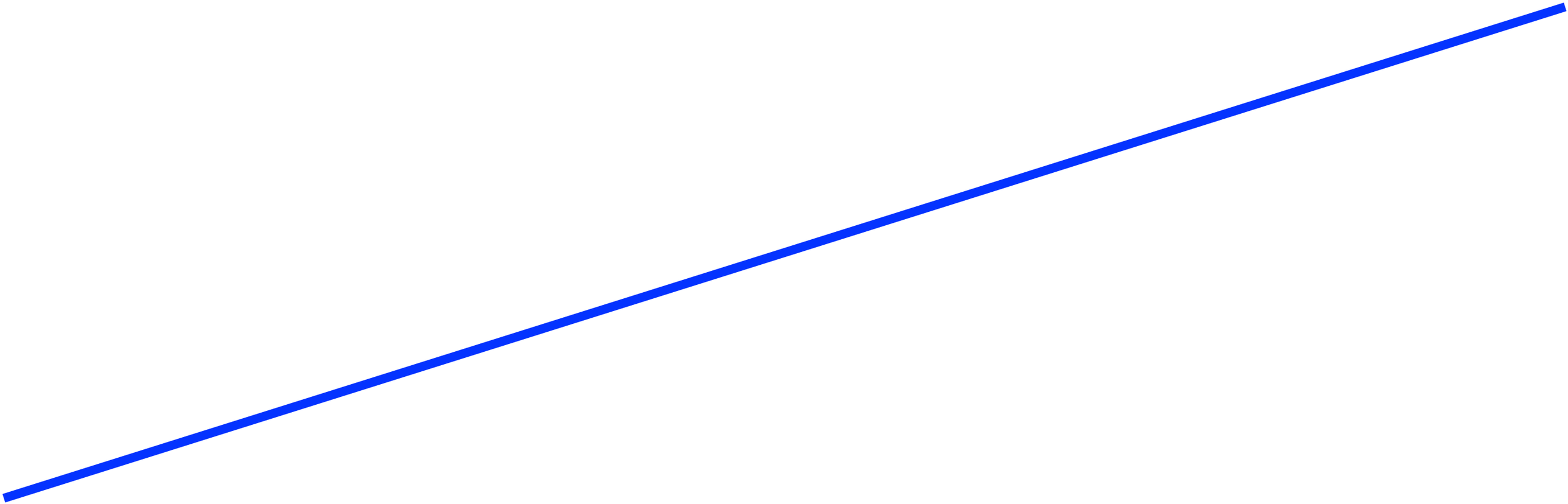
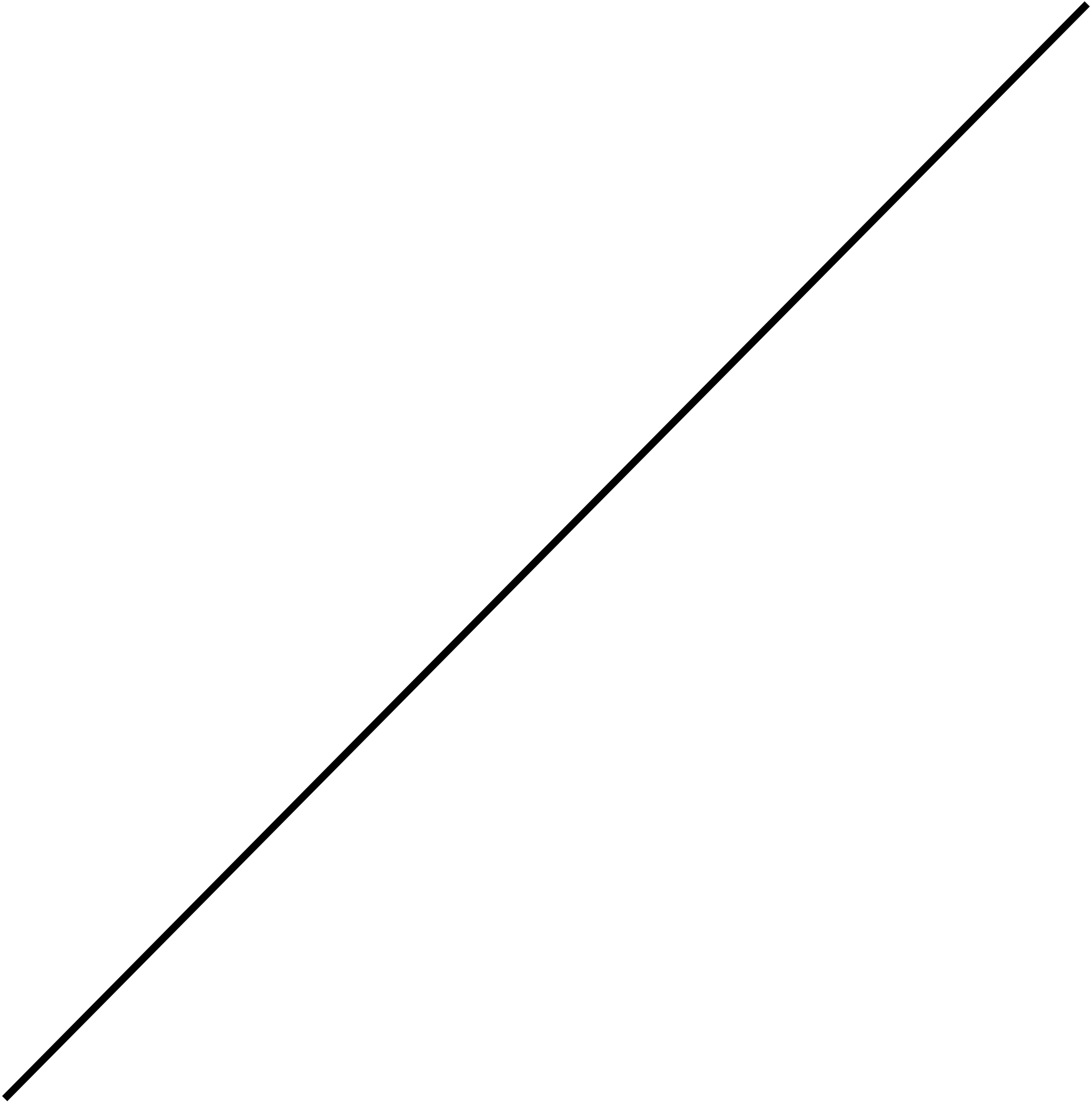
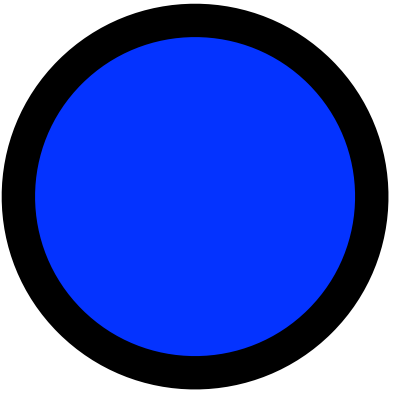


AE

Equilibrium GDP: 9,000



Equilibrium

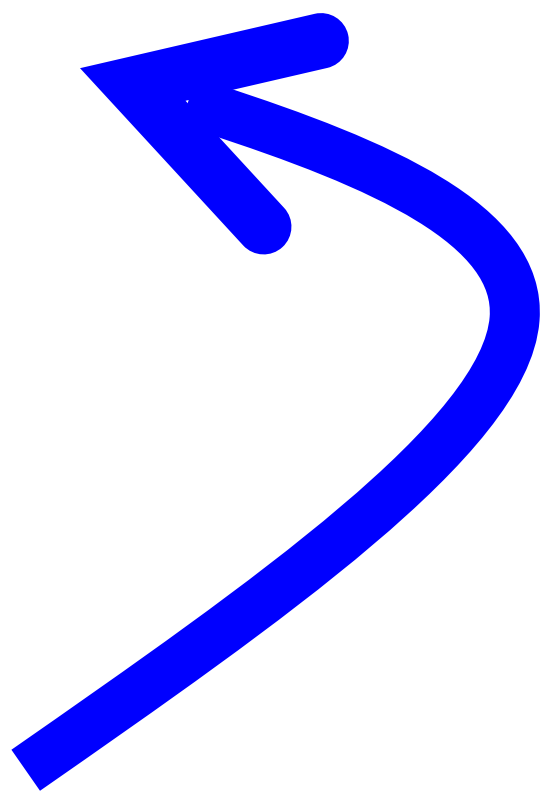


AE

Potential GDP

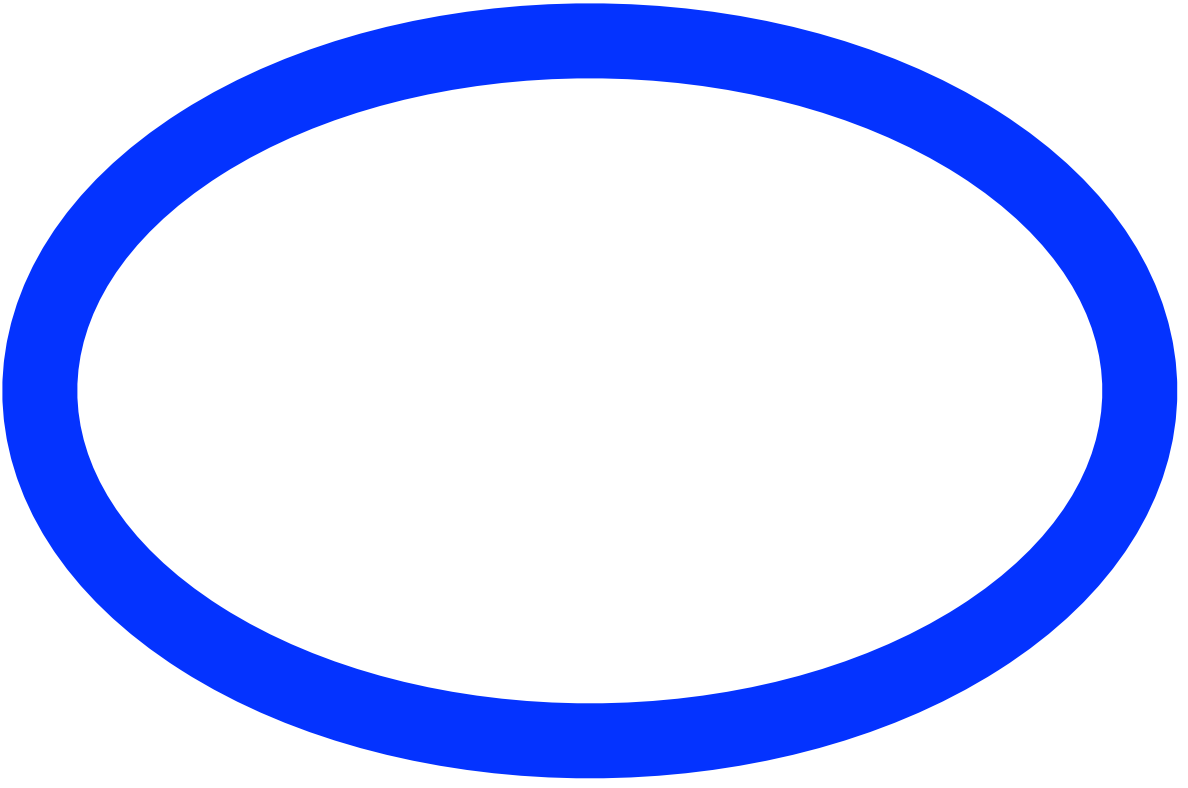
Potential

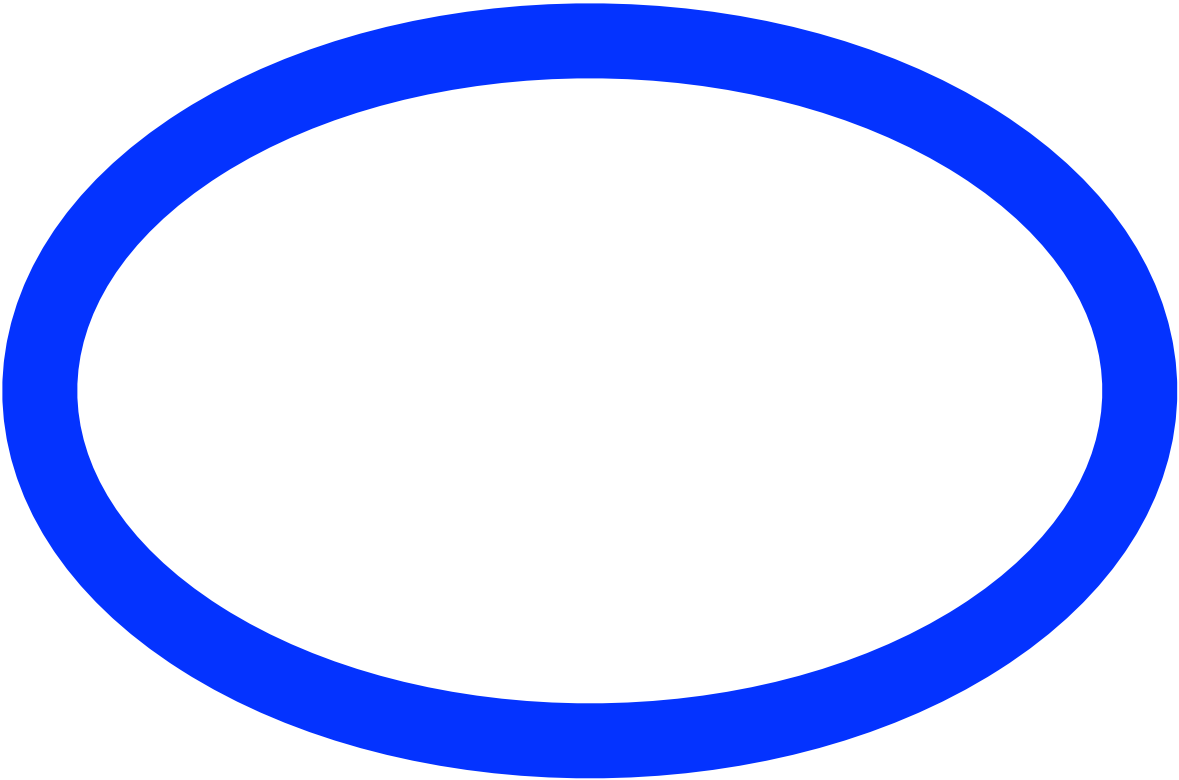
GDP : 7,000

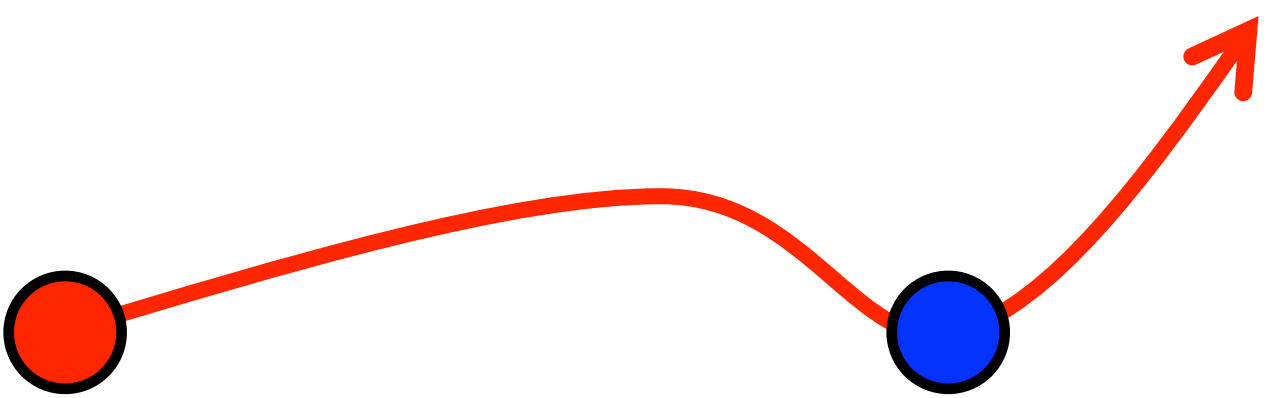


45º

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



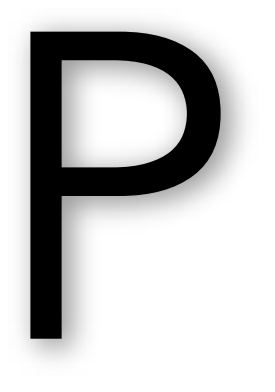


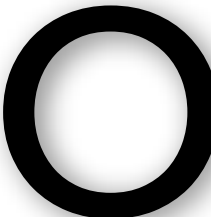


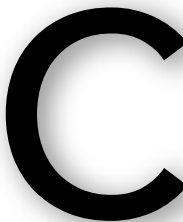
Calculate the size of the decrease in G necessary to close this 2,000 Inflationary Gap

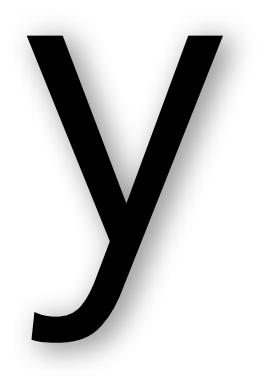
S

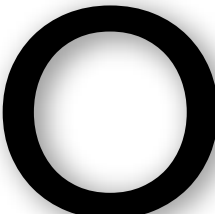
a

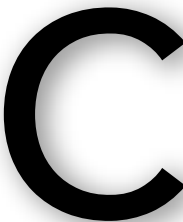


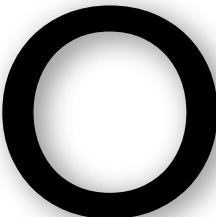


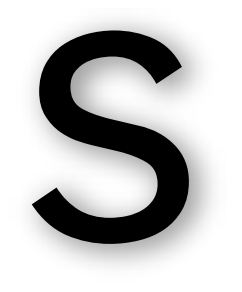








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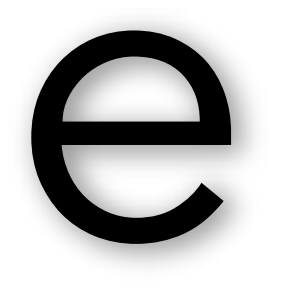

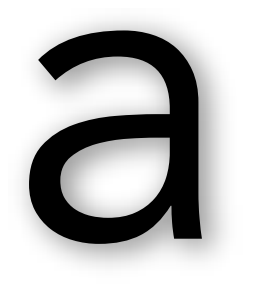
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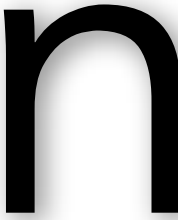

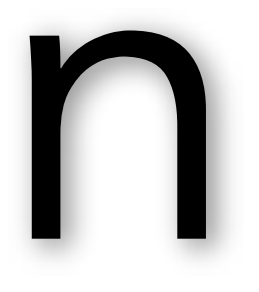

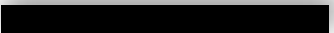

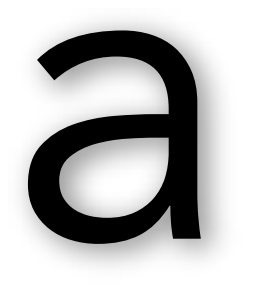
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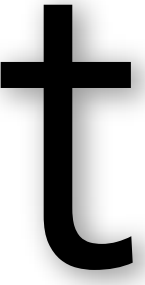

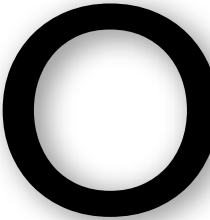

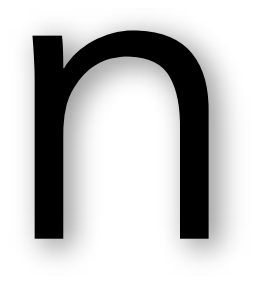

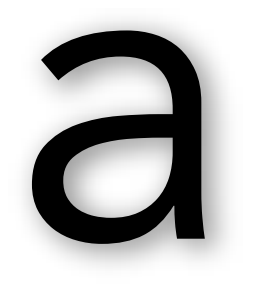
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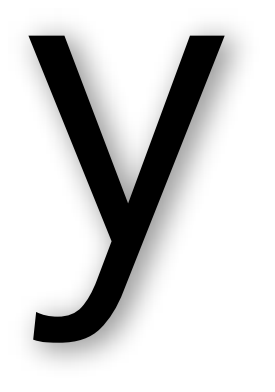
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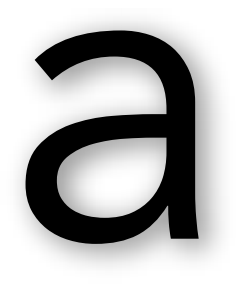
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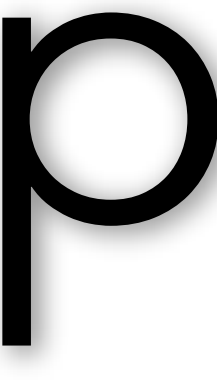

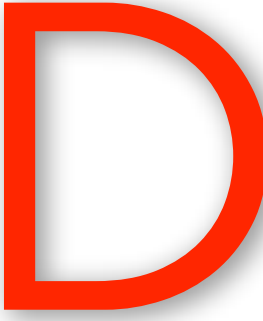

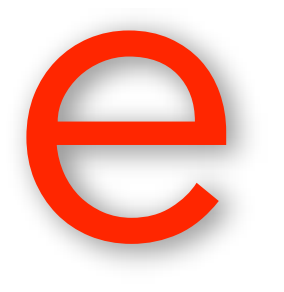

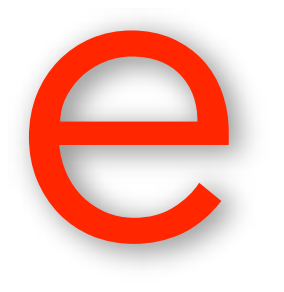

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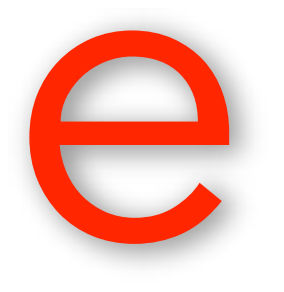

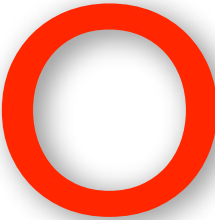

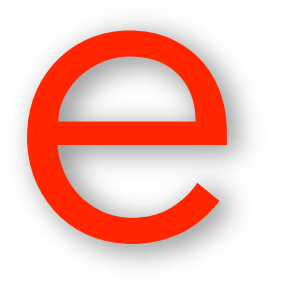

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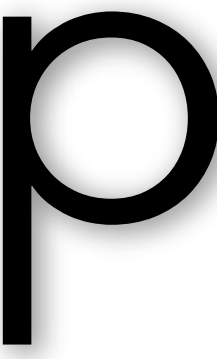
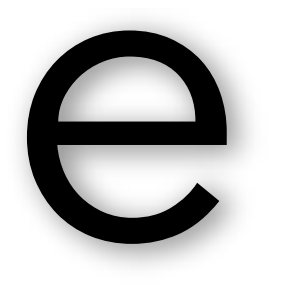
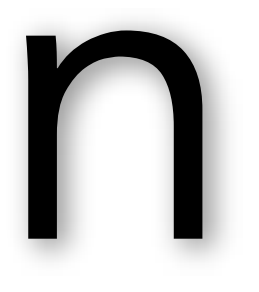
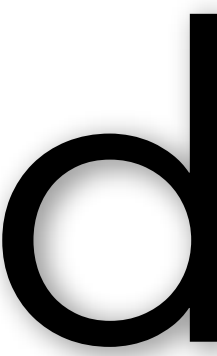
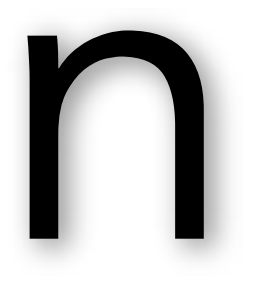
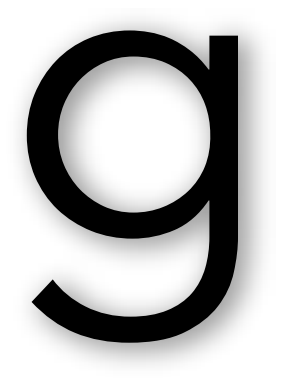




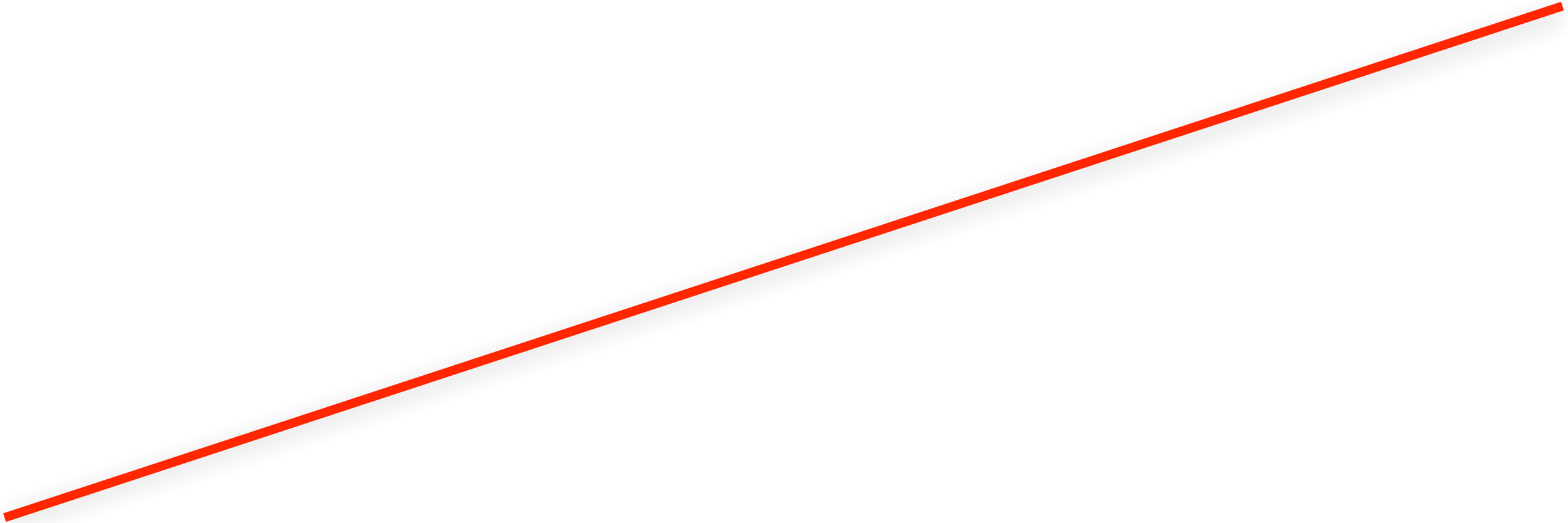






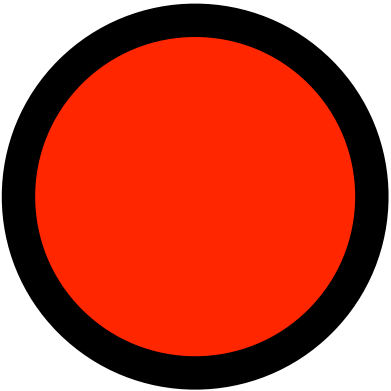


$\Delta G = ?$



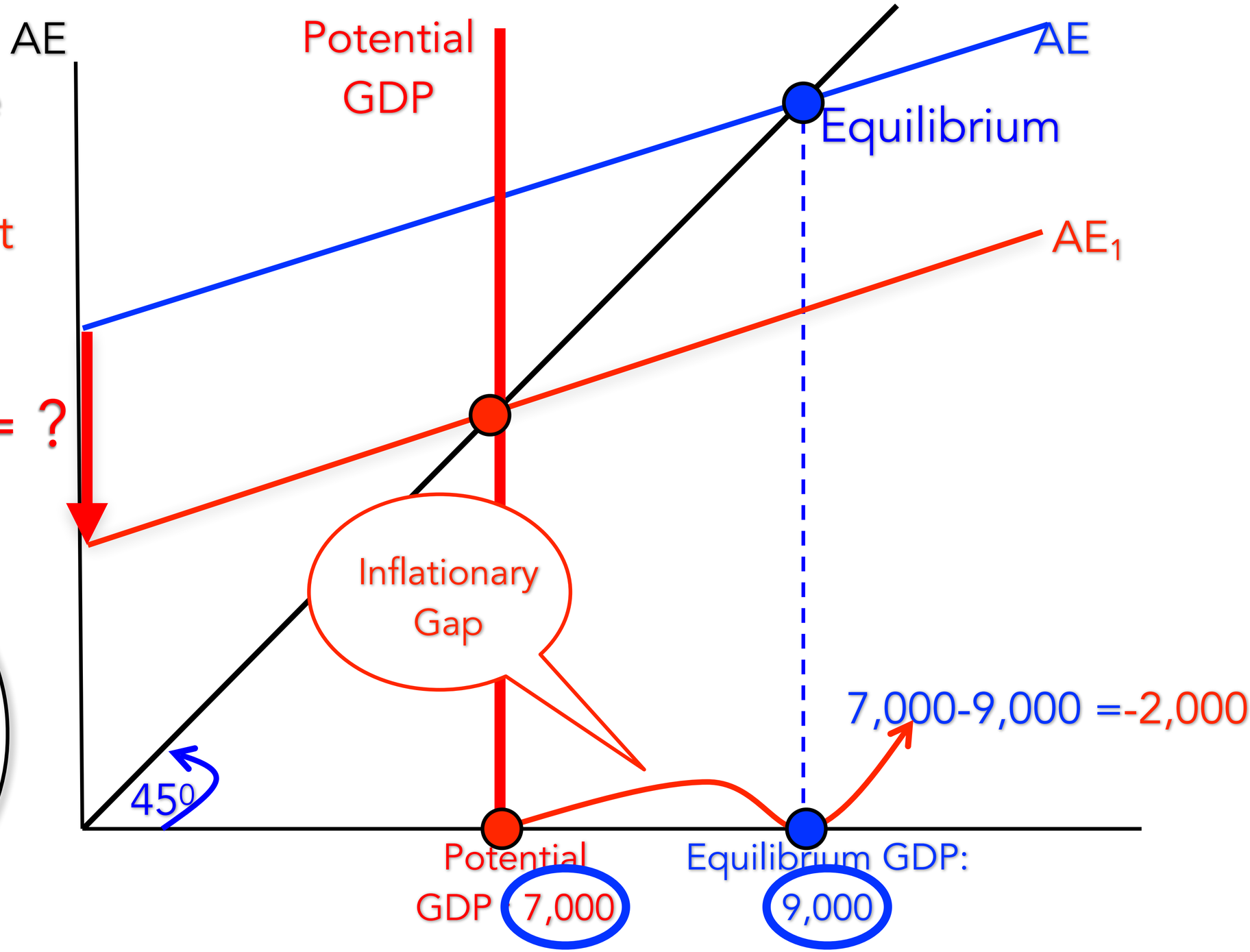
AE1

Inflationary
Gap



Fiscal Policy: To close an Inflationary Gap Decrease Government spending

Fiscal Policy: To close an Inflationary Gap Decrease Government spending



Calculate the size of the decrease in G necessary to close this 2,000 Inflationary Gap