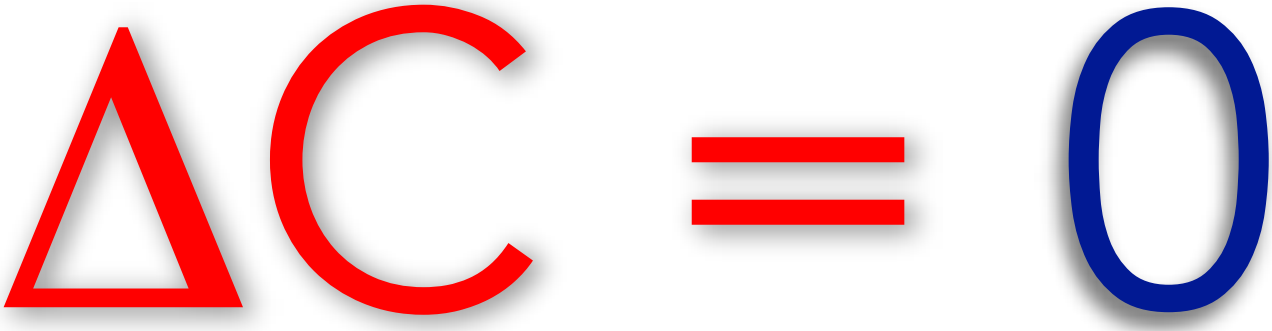
$$\Delta Y = \Delta T = \Delta G$$


ΔC = 0

We want Equilibrium GDP to increase by 1,000:

$\Delta Y = 1{,}000$

Effect on Consumption:

Effect on the Budget Deficit:

Δ Deficit $=0$

The Balanced Budget Multiplier = 1

Recessionary Gap:

7,000 - 6,000 =1,000

$$\Delta Y = 1{,}000$$

The Government must increase Taxes by 1,000 and increase Government Spending by 1,000 in order to close a 1,000 Recessionary Gap

$$\Delta T = \Delta G = 1{,}000$$

The **increase** in C caused by the increase in G is **completely offset** by the **drop** in C resulting from higher taxes

A 1,000 increase in Government Spending **fully financed** by a 1,000 increase in taxes will leave the deficit unchanged

Recessionary Gap:

7,000 - 6,000 =1,000

We want Equilibrium GDP to increase by 1,000:

$\Delta Y = 1{,}000$

The Balanced Budget Multiplier = 1

$\Delta Y = \Delta T = \Delta G$

$\Delta Y = 1{,}000$

$\Delta T = \Delta G = 1{,}000$

A 1,000 increase in Government Spending **fully financed** by a 1,000 increase in taxes will leave the deficit unchanged

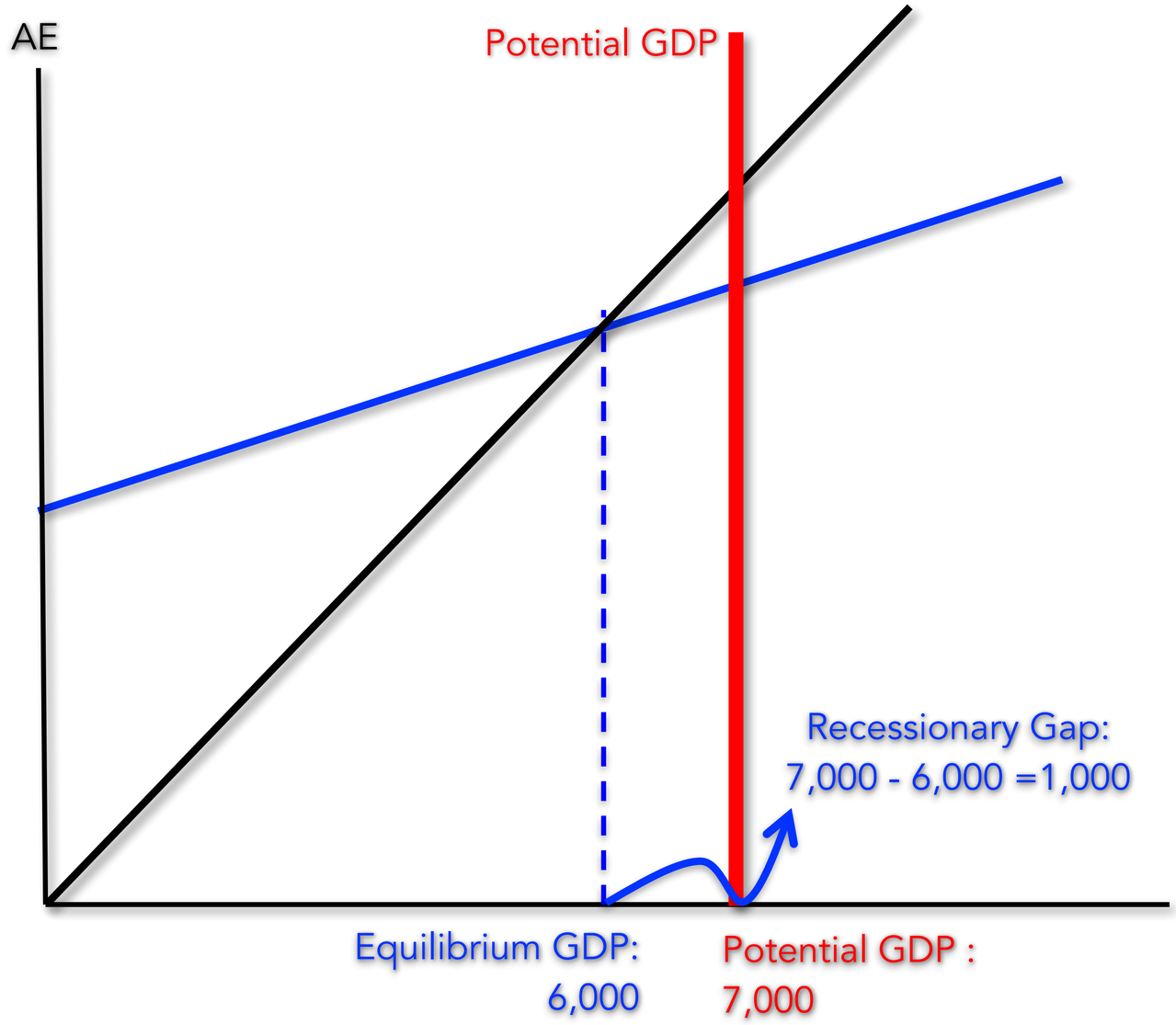
Effect on Consumption:

$\Delta C = 0$

The Government must increase Taxes by 1,000 and increase Government Spending by 1,000 in order to close a 1,000 Recessionary Gap

Effect on the Budget Deficit:

Δ Deficit =0


AE
Potential GDP
Recessionary Gap:
7,000 - 6,000 =1,000
Equilibrium GDP:
6,000
Potential GDP :
7,000