

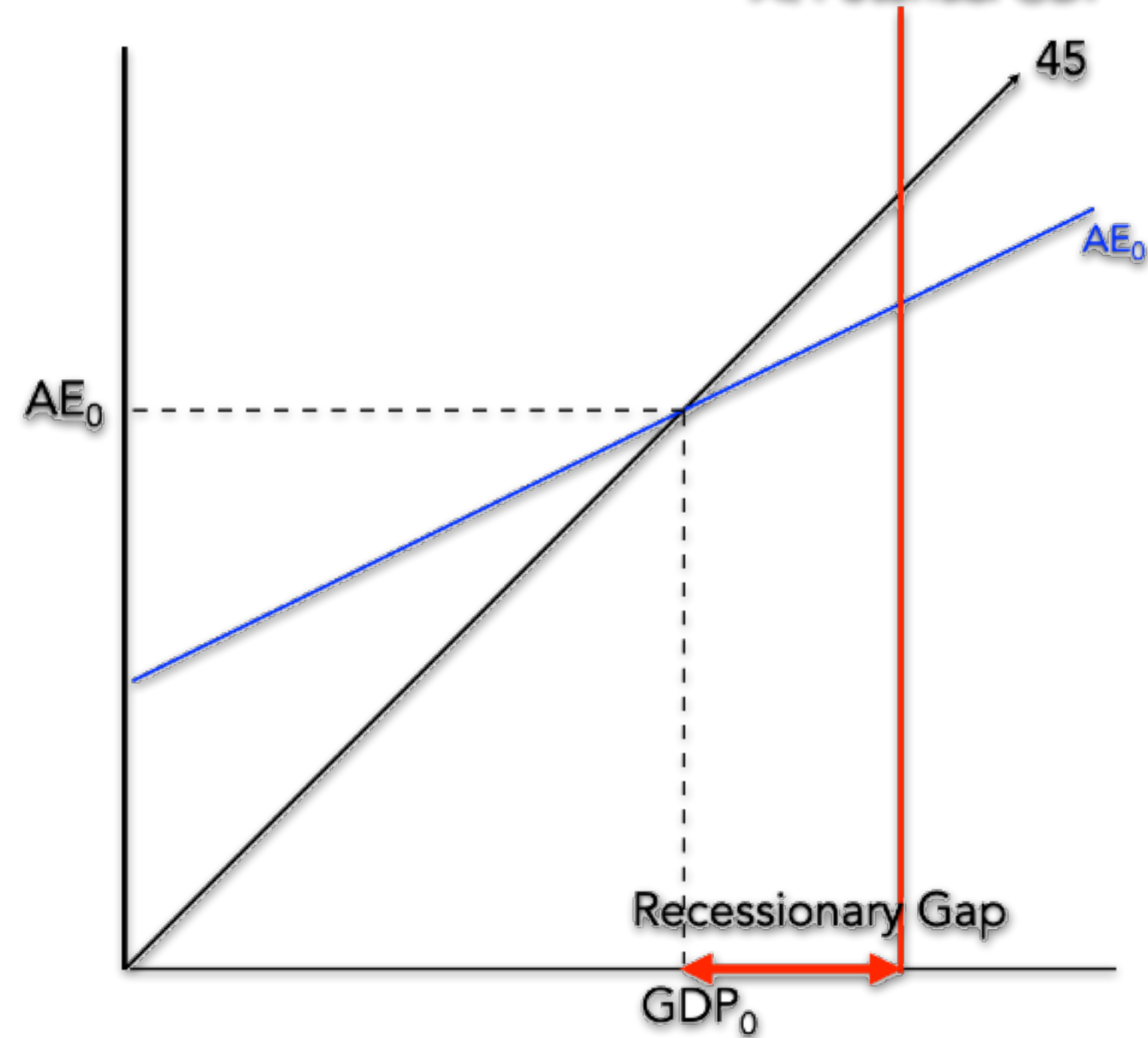
To close a **Recessionary** Gap, Aggregate Expenditures and Aggregate Demand must **increase**

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

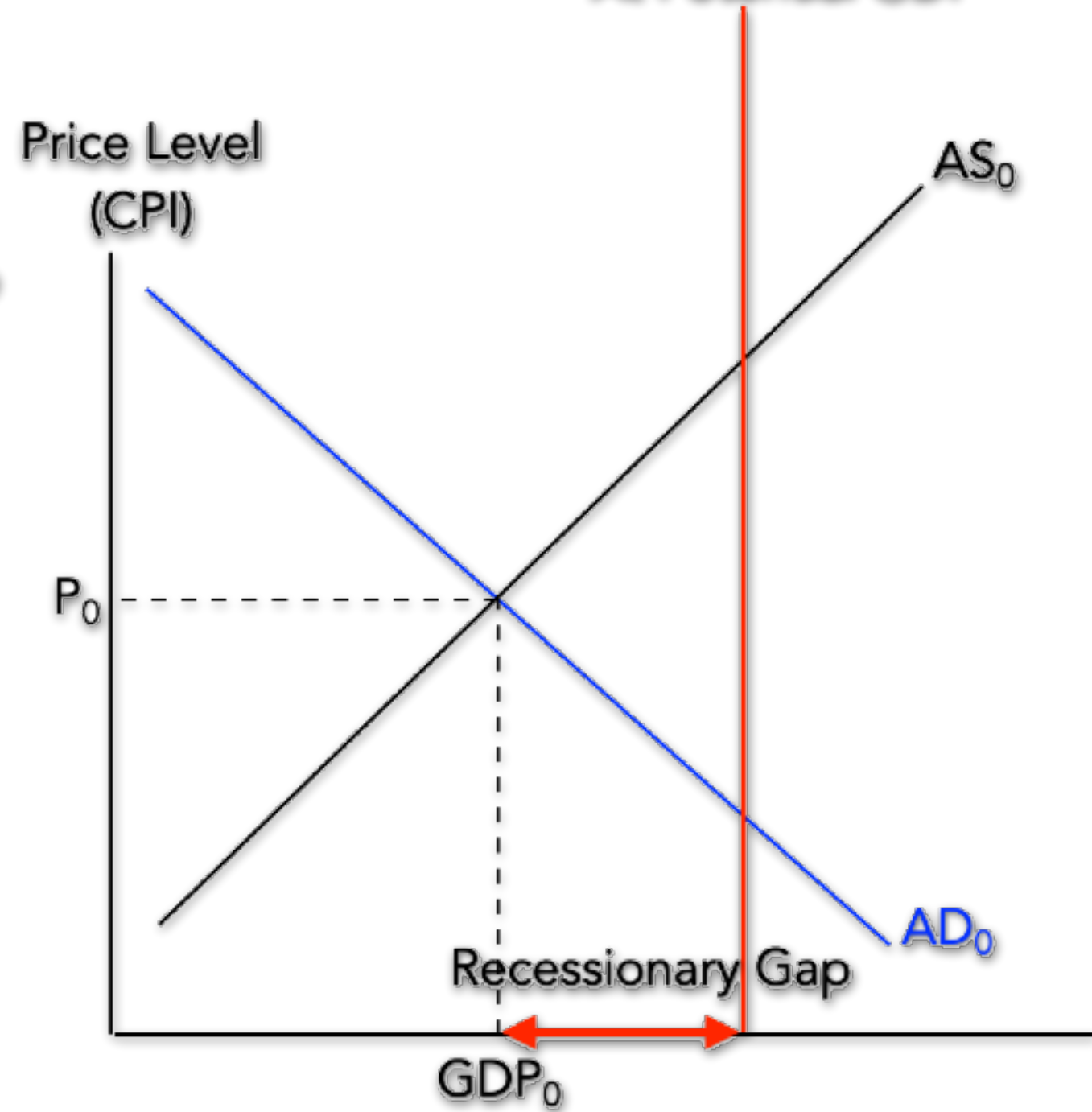
2. Increase Government Spending

Expansionary Policy

At Potential GDP



At Potential GDP

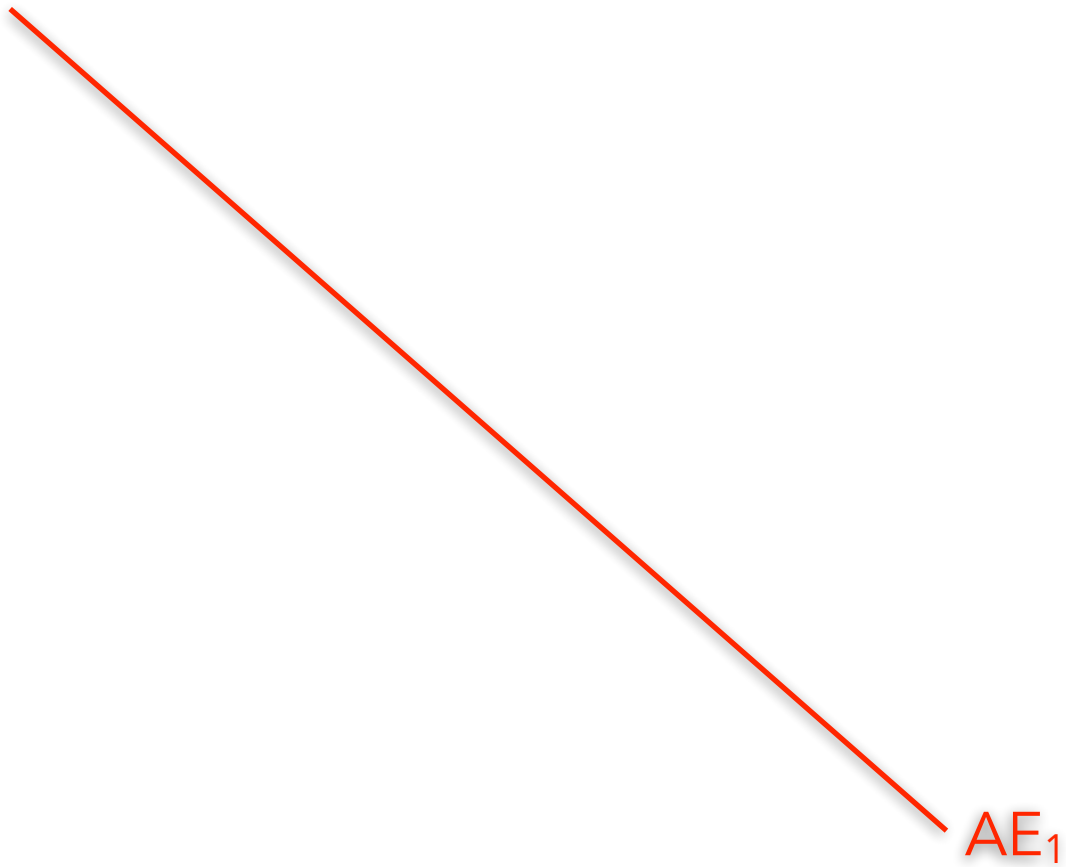


3. **Buy bonds** to increase the Money Supply and cause a drop in all interest rates to promote an increase in Investment

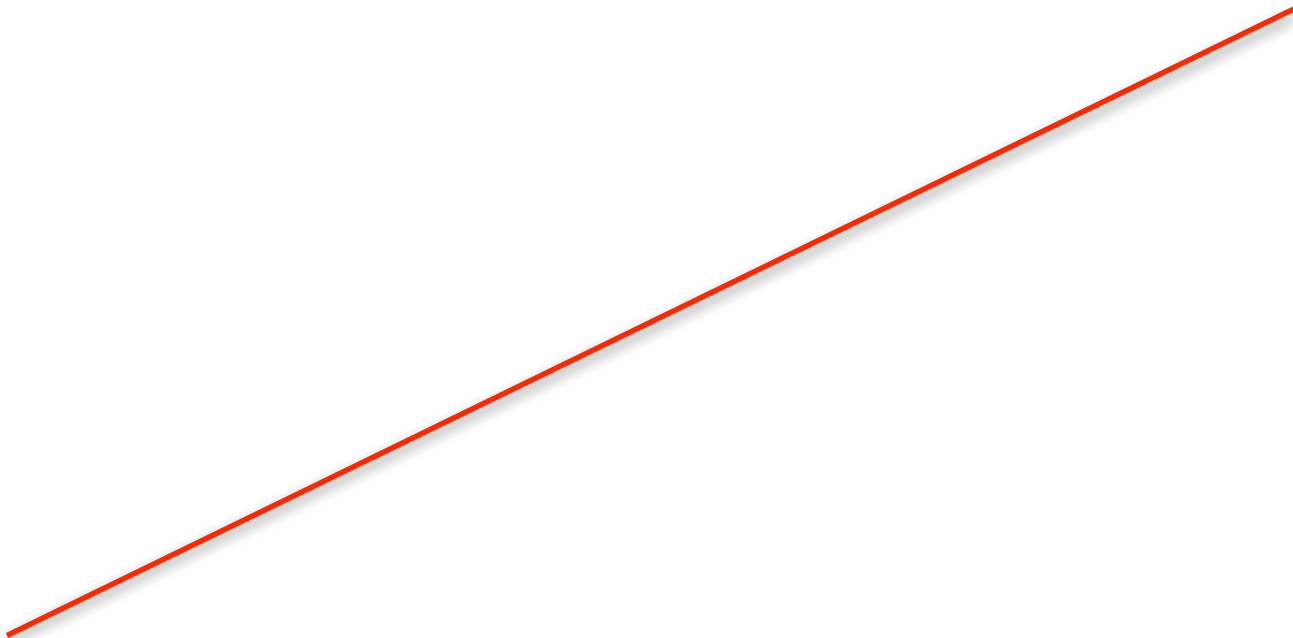
3. Decrease interest rates to increase investment

Expansionary Fiscal Policy

Expansionary Monetary Policy



AE_1



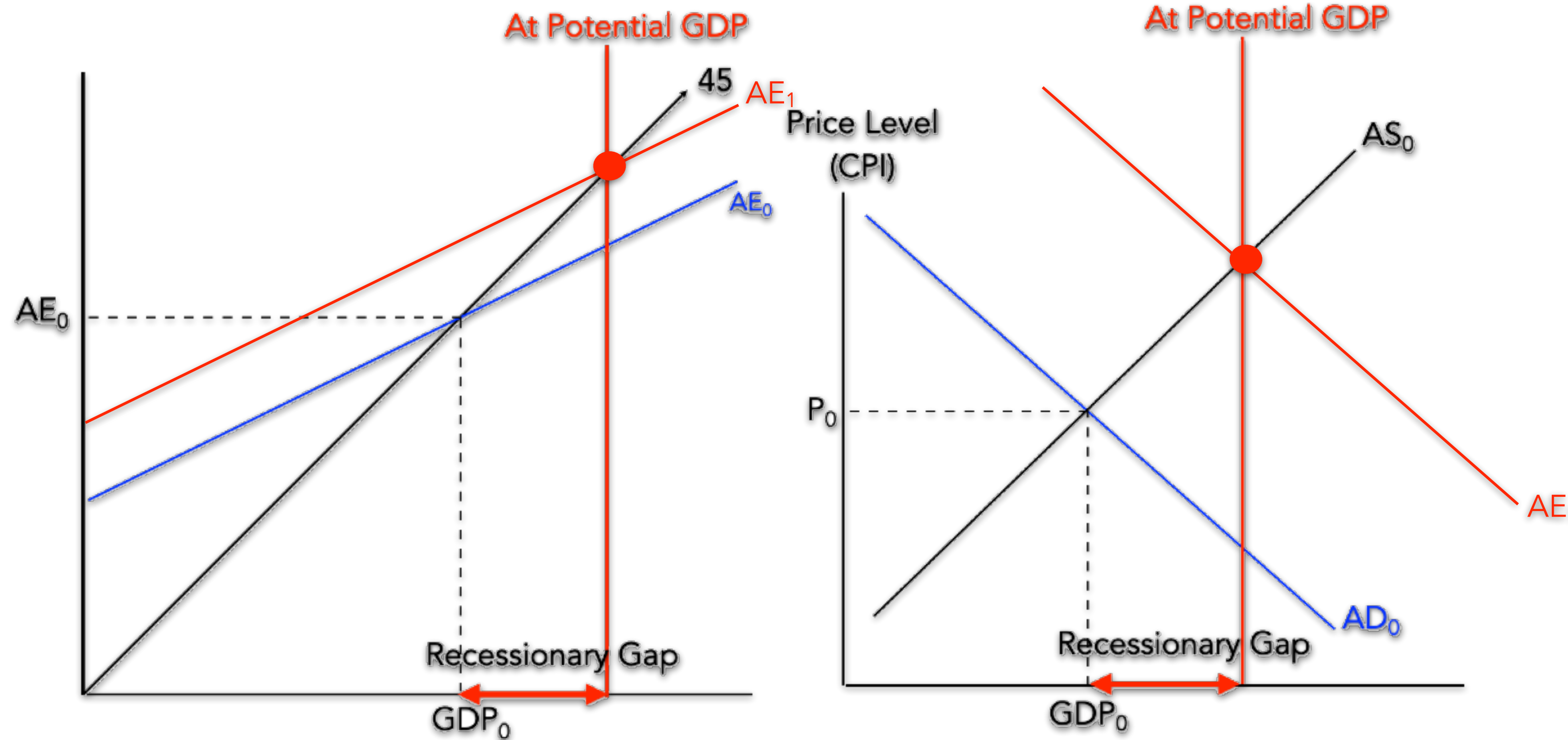






Neither the Fed nor
the Government can
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Expansionary Policy



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

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2. **Increase** Government Spending

Expansionary Fiscal Policy

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Expansionary Monetary Policy

Inflation Rate

