5. Tax Incentives: reducing taxes on businesses as an incentive to invest more.

## What determines Investment spending?

Such tax incentives must be tied directly to the

purchase of a capital good: Firms should get the tax

credit only if they increase investment

## What determines Investment spending?

5. Tax Incentives: reducing taxes on businesses as an incentive to invest more.

Such tax incentives must be tied directly to the purchase of a capital good: Firms should get the tax credit only if they increase investment

## Components of Aggregate Demand