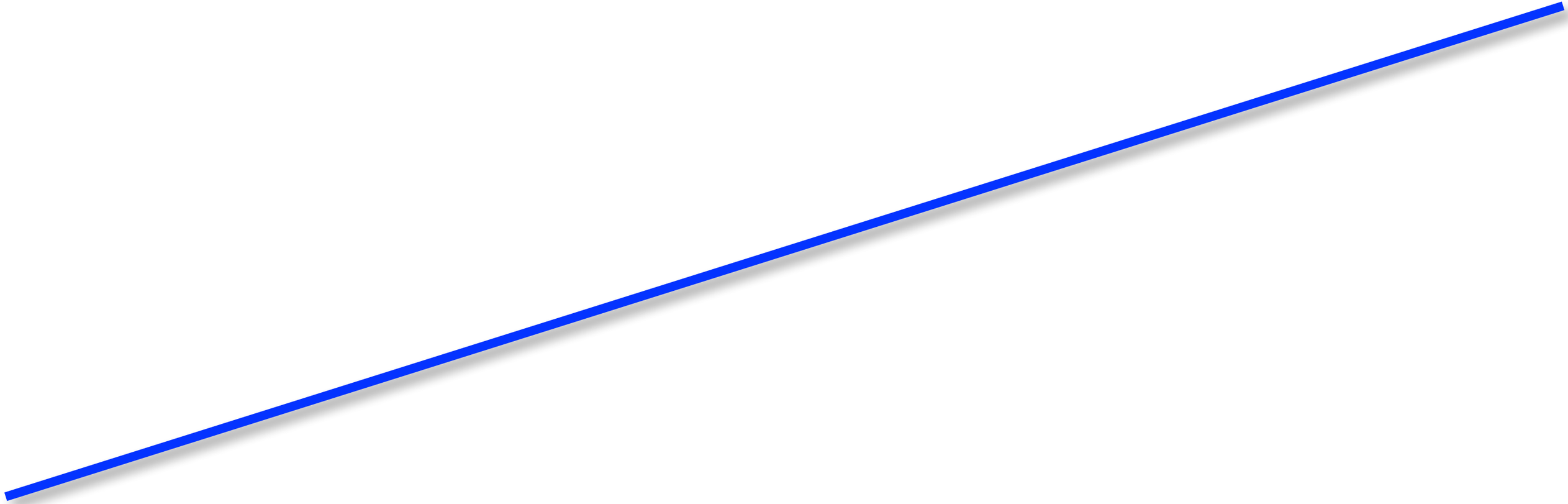
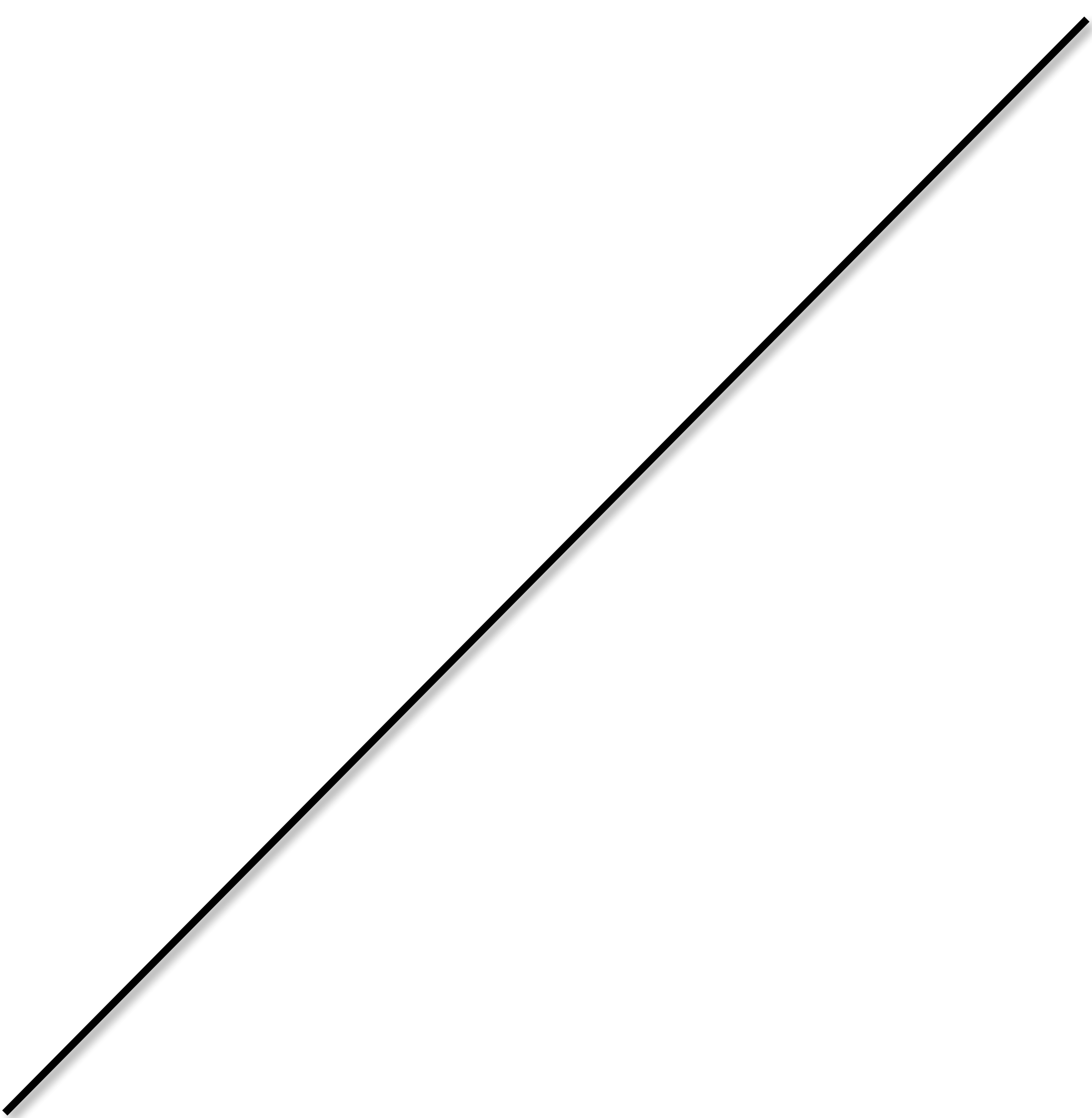
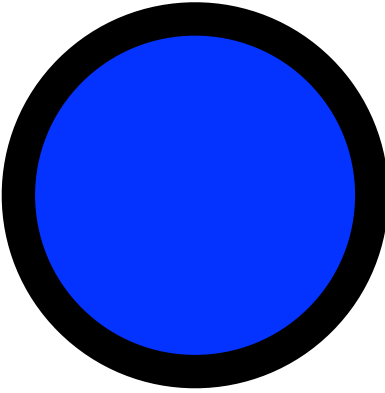



AE

Equilibrium GDP: 6,000

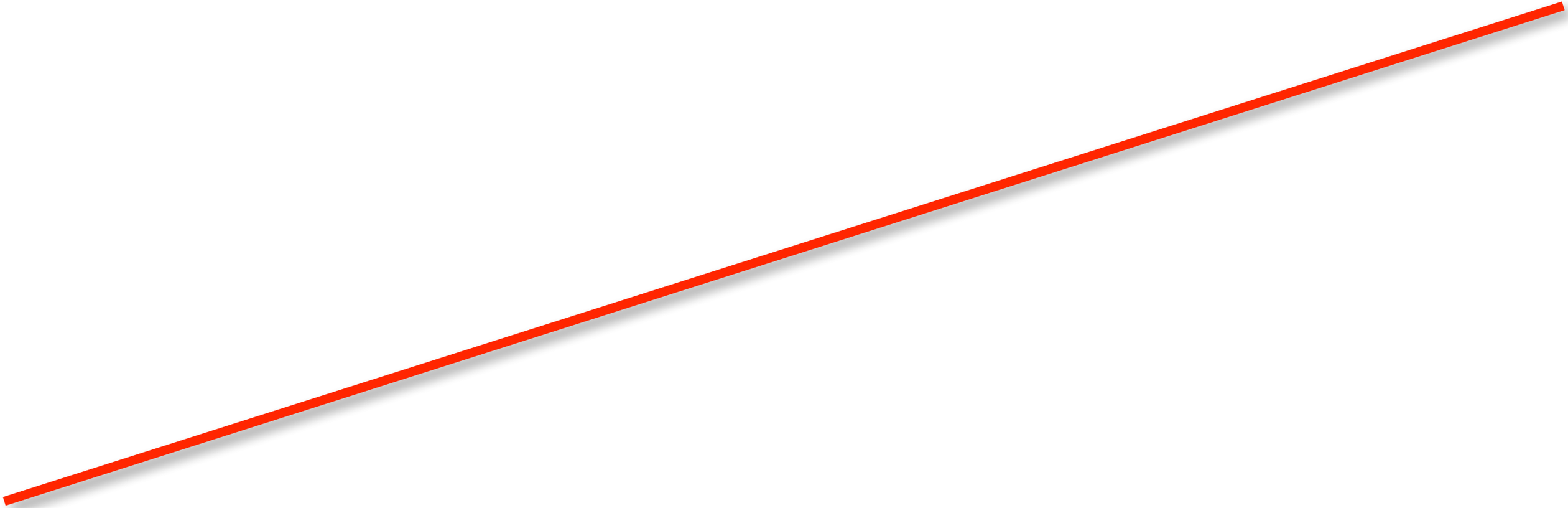


Equilibrium

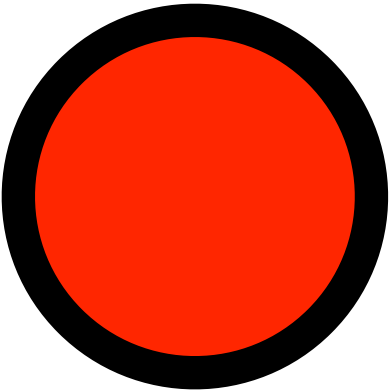



AE0

Potential GDP




AE1

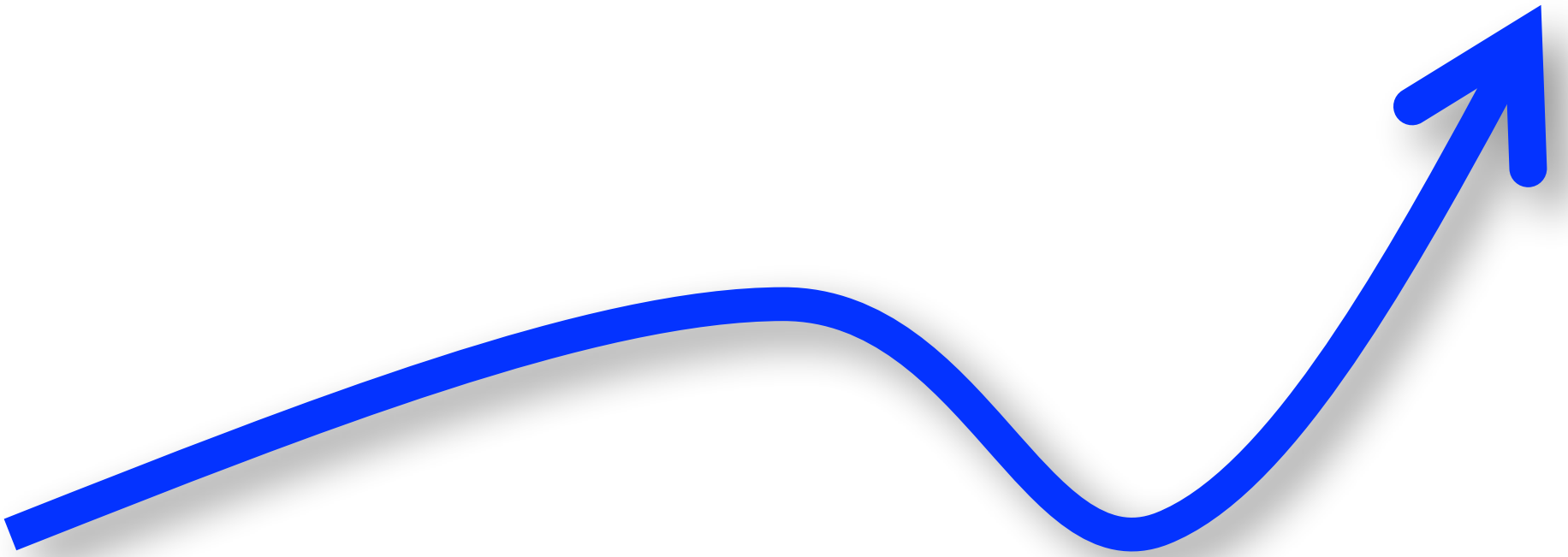


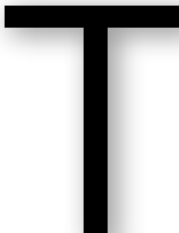
Potential

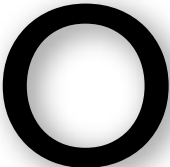
GDP : 7,000

Recessionary Gap:

7,000 - 6,000 =1,000







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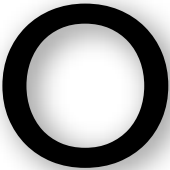

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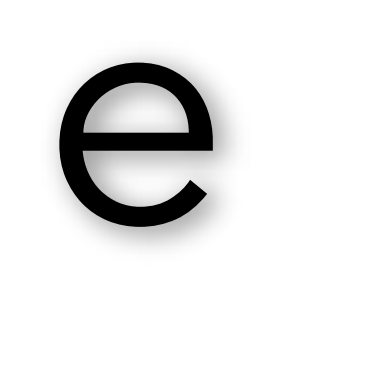

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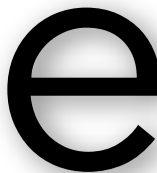

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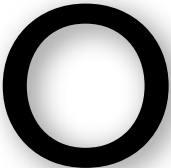

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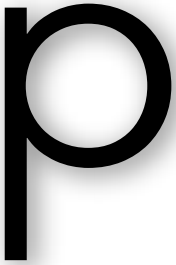


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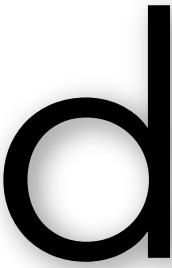

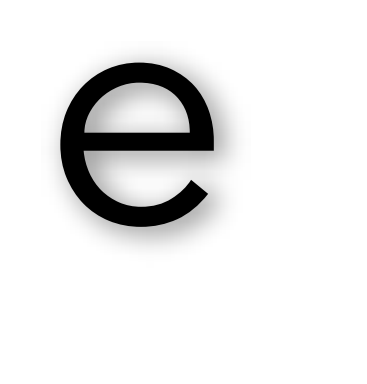
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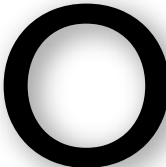

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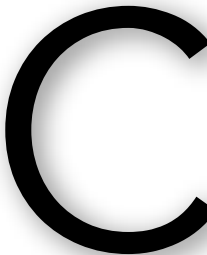

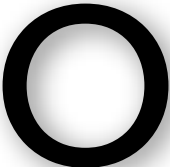

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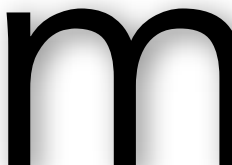

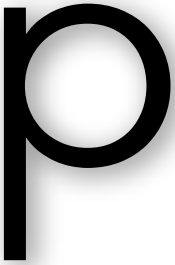

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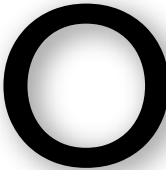

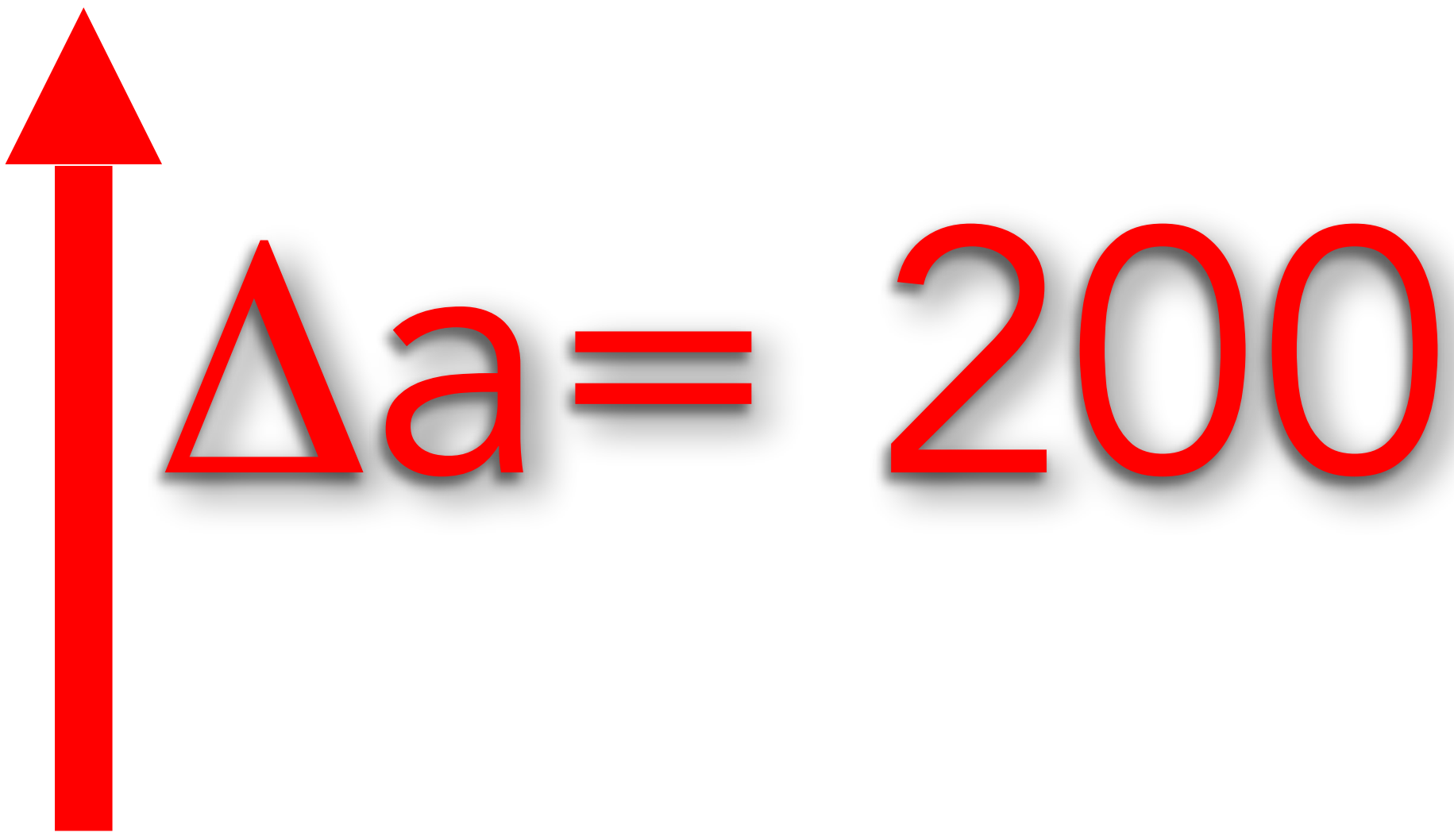
Δa= 200

The Government must decrease Taxes by 250 in order to close a 1,000 Recessionary Gap

If taxes decrease by 250, Disposable Income **increase** by **250** and Consumption increase by 250 x MPC = 250 x 0.8 = 200

To close a Recessionary Gap
Decrease Taxes in order to
increase Consumption

To close a Recessionary Gap Decrease Taxes in order to increase Consumption

The Government must decrease Taxes by 250 in order to close a 1,000 Recessionary Gap

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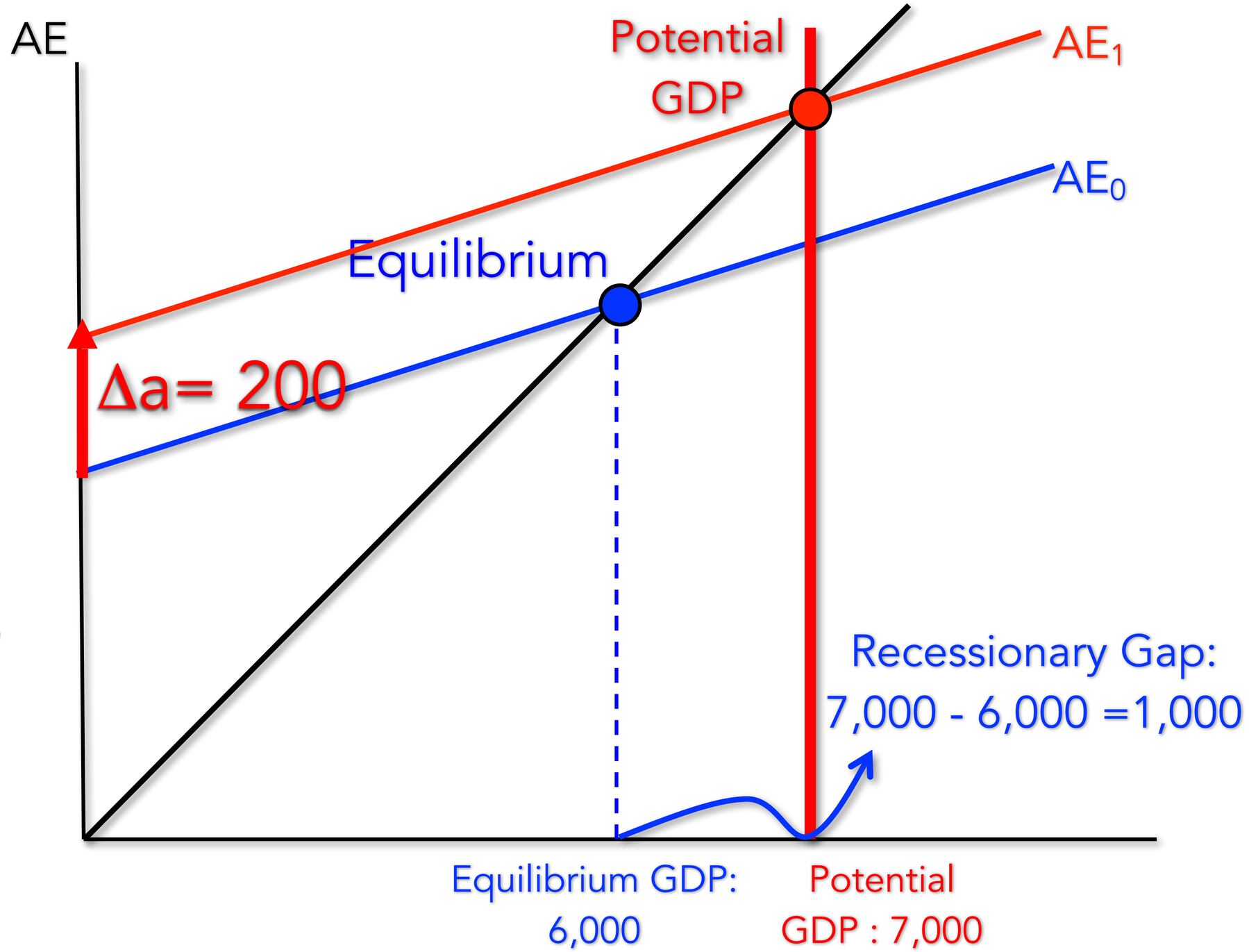

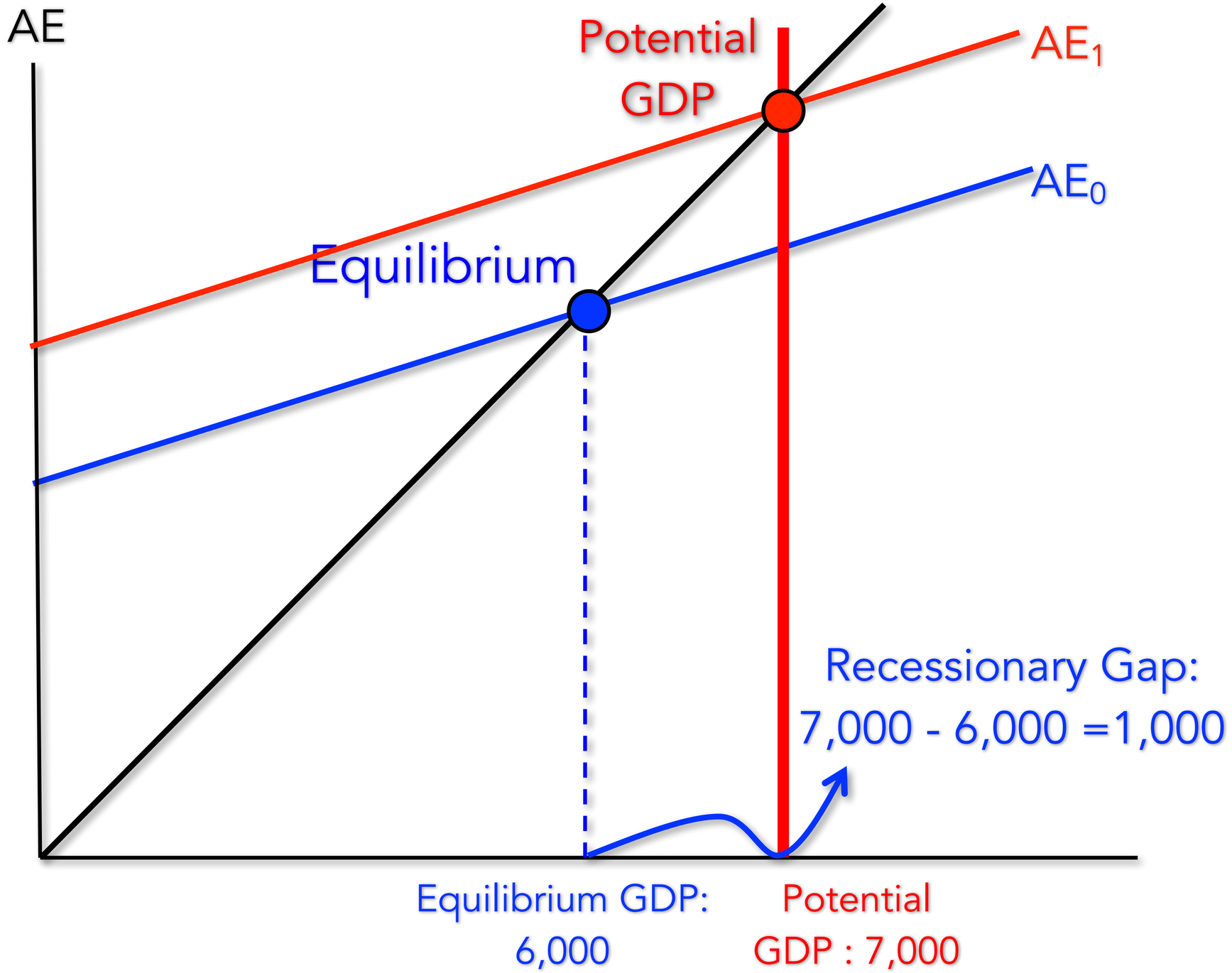
AE
Potential
GDP
AE_1
AE_0
Equilibrium
Recessionary Gap:
7,000 - 6,000 =1,000
Equilibrium GDP:
6,000
Potential
GDP : 7,000