$$\Delta Y = \Delta T$$

$$\Delta C = \Delta Y$$

We know we want Equilibrium GDP to increase by 1,000:

$$\Delta Y = 1,000$$

Effect on Consumption:

Effect on the Budget Deficit:

$$\Delta \text{ Deficit} = \Delta G - \Delta T$$

The Tax Multiplier

$$\left(\frac{-MPC}{1-MPC} \right)$$

$$\left(\frac{-0.8}{1-0.8} \right)$$

$$\left(\frac{-0.8}{0.2} \right)$$

-4

(Tax Multiplier)

$$\Delta C = 1,000$$

Δ Deficit = 0 - (-250) = +250

Assume: MPC = 0.8

Recessionary Gap:
7,000 - 6,000 = 1,000

$$\Delta Y = 1,000$$

$$1,000 = \Delta T$$

(-4)

$$\Delta T = 1{,}000/\text{-}4$$

$$\Delta T = -250$$

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

A 250 decrease in Taxes will increase the Deficit by 250

Recessionary Gap:
7,000 - 6,000 = 1,000

We know we want Equilibrium GDP to increase by 1,000:

$$\Delta Y = 1,000$$

$$= \left(\frac{-0.8}{1-0.8} \right) = \left(\frac{-0.8}{0.2} \right) =$$

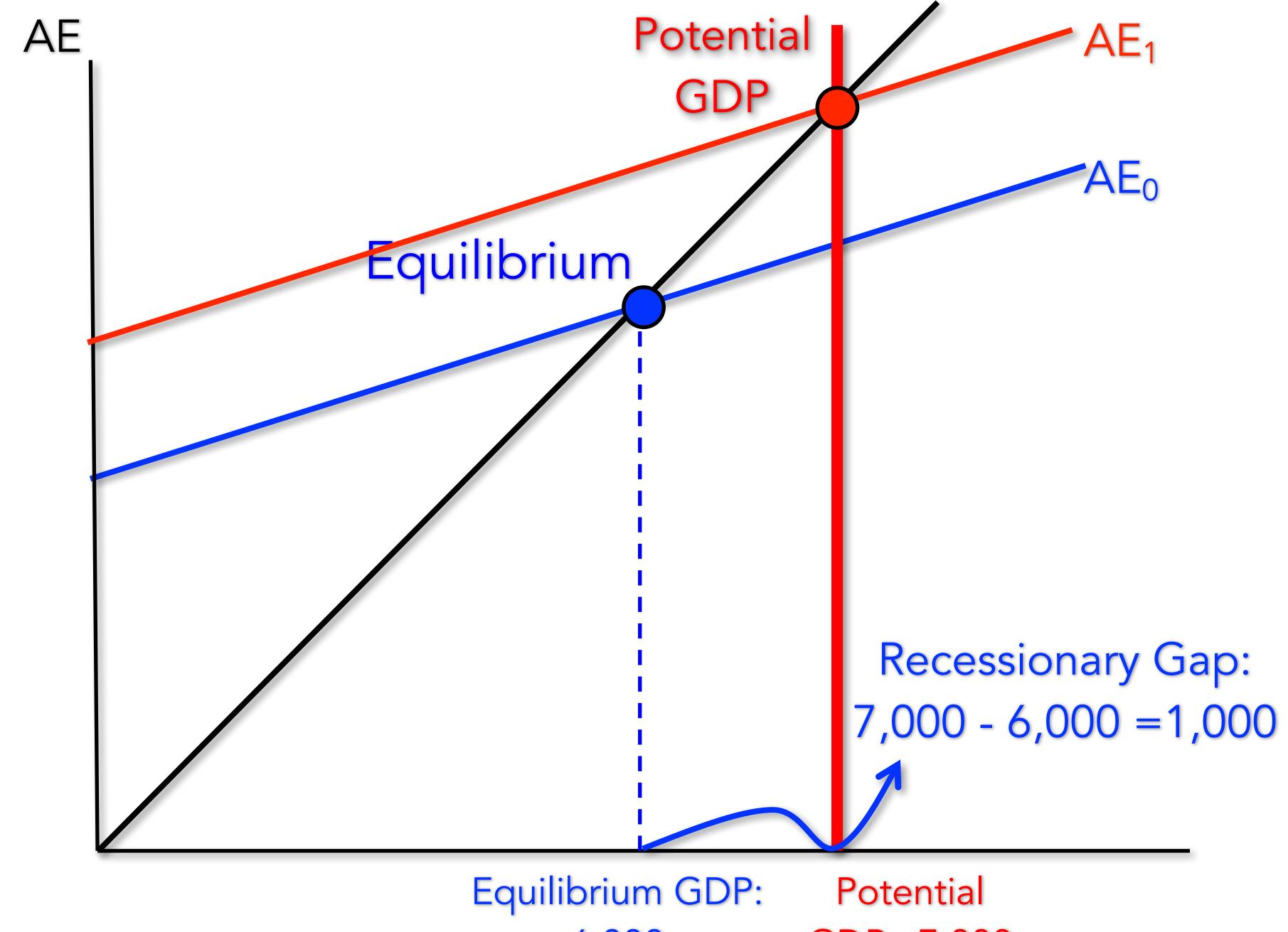Effect on Consumption:

$$\Delta C = 1,000$$

Effect on the Budget Deficit:

$$\Delta T = 1,000/-4$$

$$\Delta T = -250$$

$$\Delta \text{ Deficit} = 0 - (-250) = +250$$

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

A 250 decrease in Taxes will increase the Deficit by 250