



To close an **Inflationary** Gap, Aggregate Expenditures and  
Aggregate Demand must **decrease**

1. **Increase** Taxes and/or Decrease Transfers to decrease  
Consumption

2. Decrease Government Spending

3. Increase interest rate increase investment

Contractiōnary Policy

# Contractionary Policy

To close an **Inflationary** Gap, Aggregate Expenditures and Aggregate Demand must **decrease**

1. **Increase** Taxes and/or Decrease Transfers to decrease Consumption
2. **Decrease** Government Spending
3. **Increase** interest rates to increase investment

