



NY =

NT =

NG

$$\Delta C = 0$$

We know we want Equilibrium GDP to decrease by 2,000:

$$\Delta Y = -2,000$$

Effect on Consumption:

Effect on the Budget Deficit:

$\Delta$  Deficit  $\equiv 0$

The Balanced Budget  
Multiplier = 1



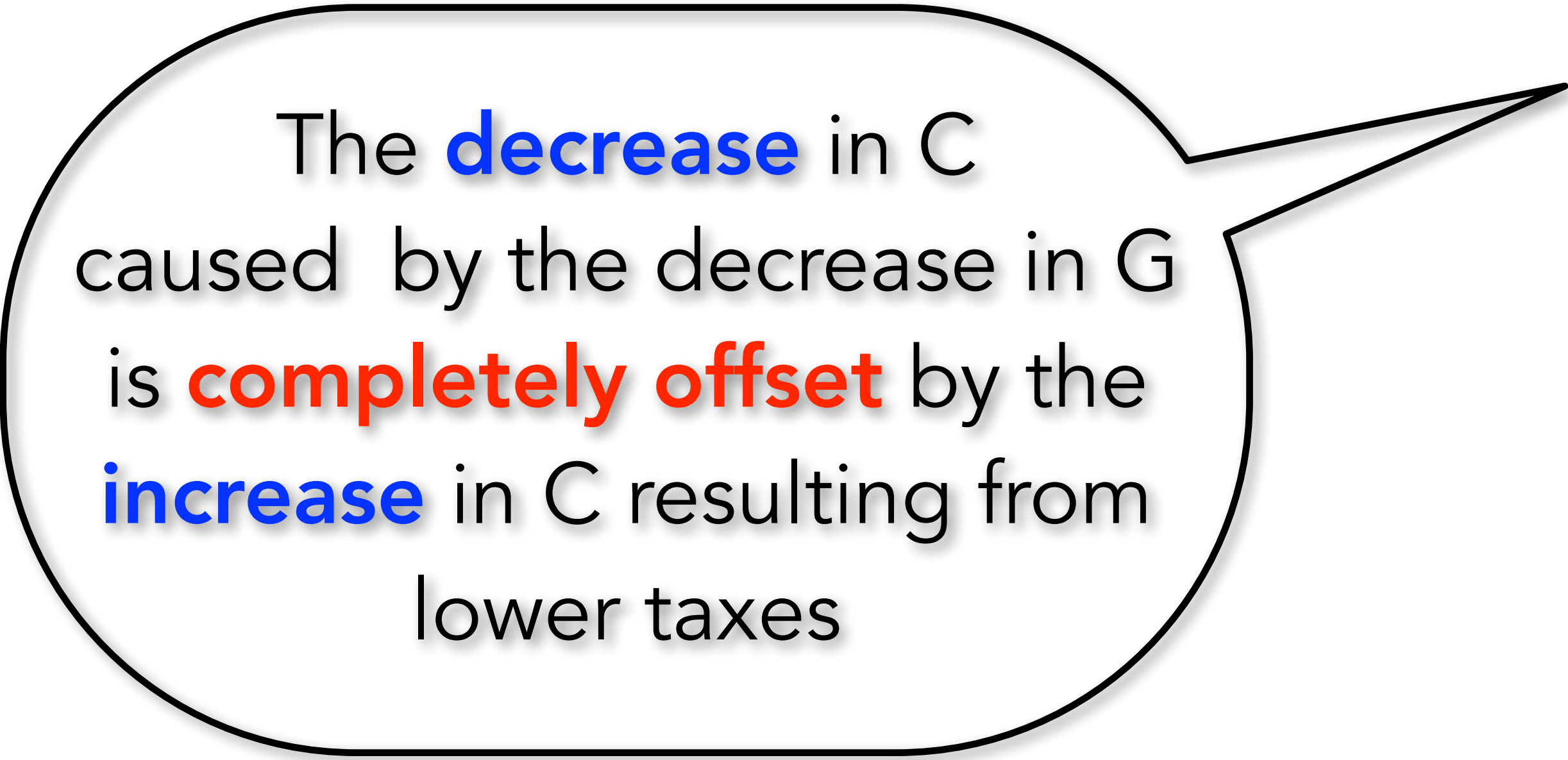
Recessionary Gap:

$$7,000 - 9,000 = -2,000$$

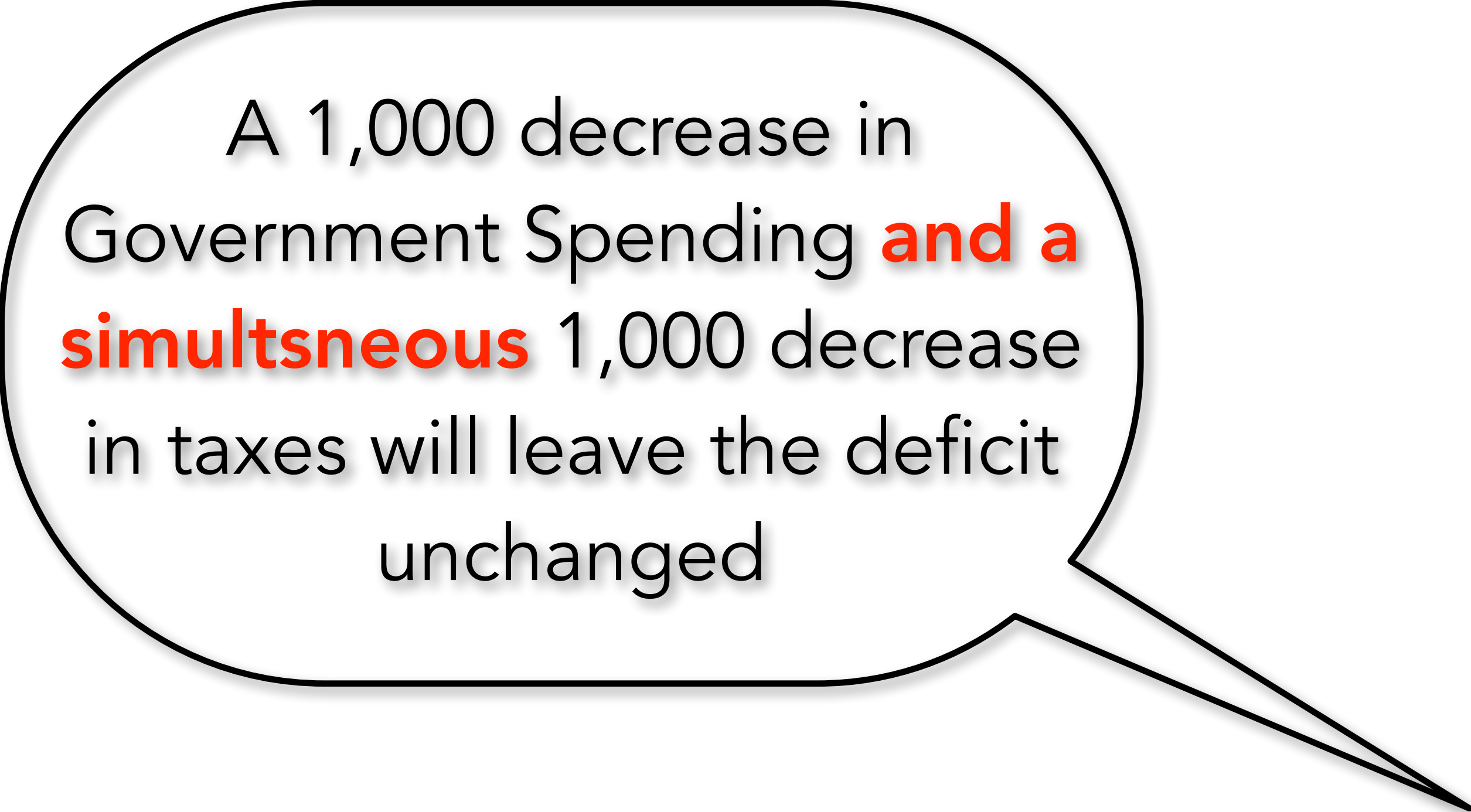
$\Delta Y = -2,000$

The Government must decrease Taxes and Government Spending by 2,000 in order to close a 2,000 Inflationary Gap

$$\Delta T = \Delta G = -2,000$$



The **decrease** in C  
caused by the decrease in G  
is **completely offset** by the  
**increase** in C resulting from  
lower taxes

A speech bubble with a black outline and a white background. The text inside is centered and reads: "A 1,000 decrease in Government Spending and a simultaneous 1,000 decrease in taxes will leave the deficit unchanged". The words "and a simultaneous" are highlighted in red.

A 1,000 decrease in  
Government Spending **and a  
simultaneous** 1,000 decrease  
in taxes will leave the deficit  
unchanged

Recessionary Gap:  
 $7,000 - 9,000 = -2,000$

We know we want Equilibrium GDP to decrease by 2,000:

$$\Delta Y = -2,000$$

Effect on Consumption:

$$\Delta C = 0$$

The Balanced Budget  
Multiplier = 1

$$\Delta Y = \Delta T = \Delta G$$

$$\Delta Y = -2,000$$

$$\Delta T = \Delta G = -2,000$$

A 1,000 decrease in  
Government Spending **and a  
simultaneous** 1,000 decrease  
in taxes will leave the deficit  
unchanged

The Government must **decrease** Taxes **and**  
Government Spending by **2,000** in order to  
close a **2,000** Inflationary Gap

Effect on the Budget Deficit:

$$\Delta \text{Deficit} = 0$$

