

A

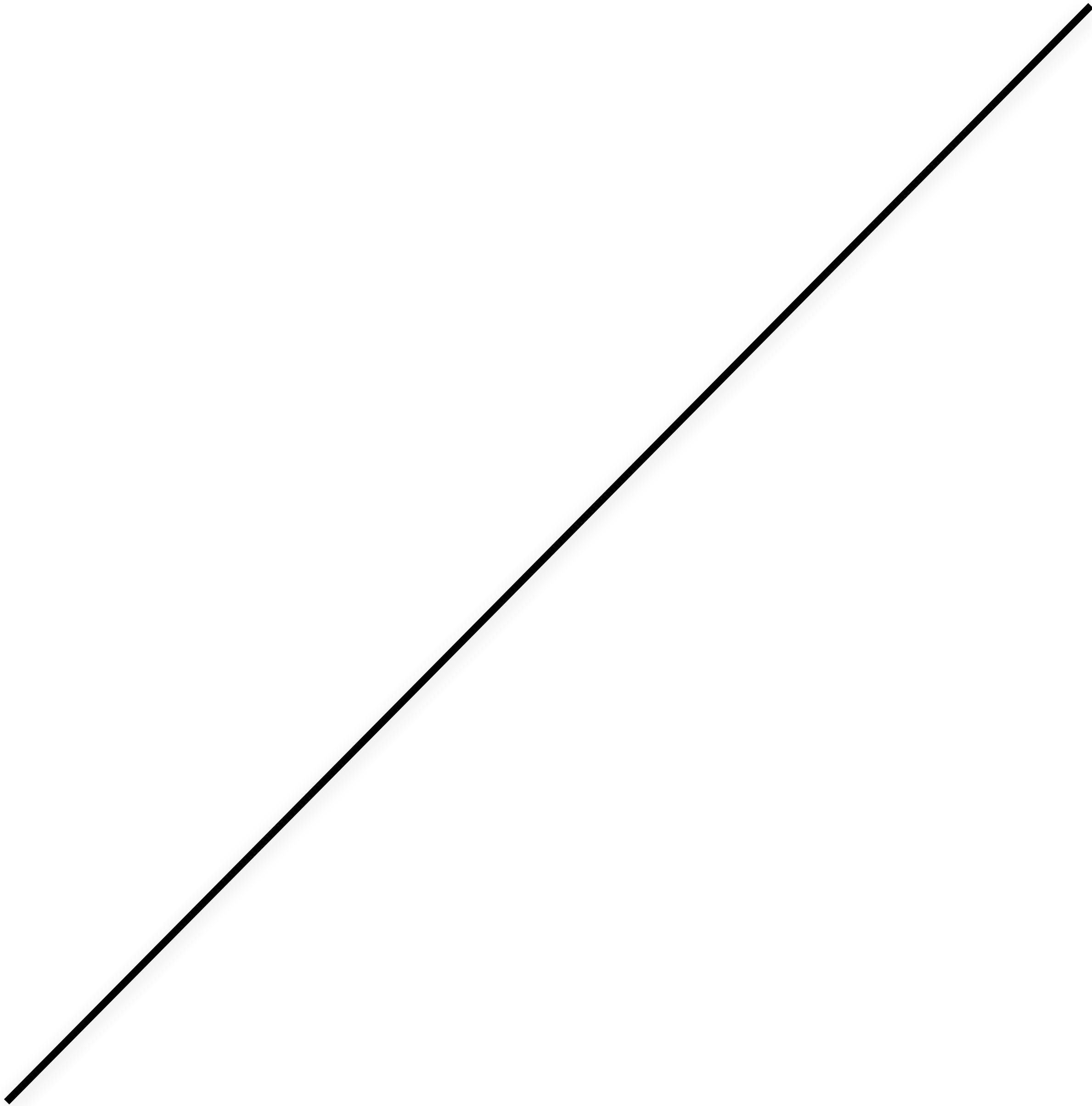
E



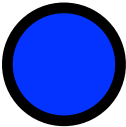
Equilibrium GDP:

6,000





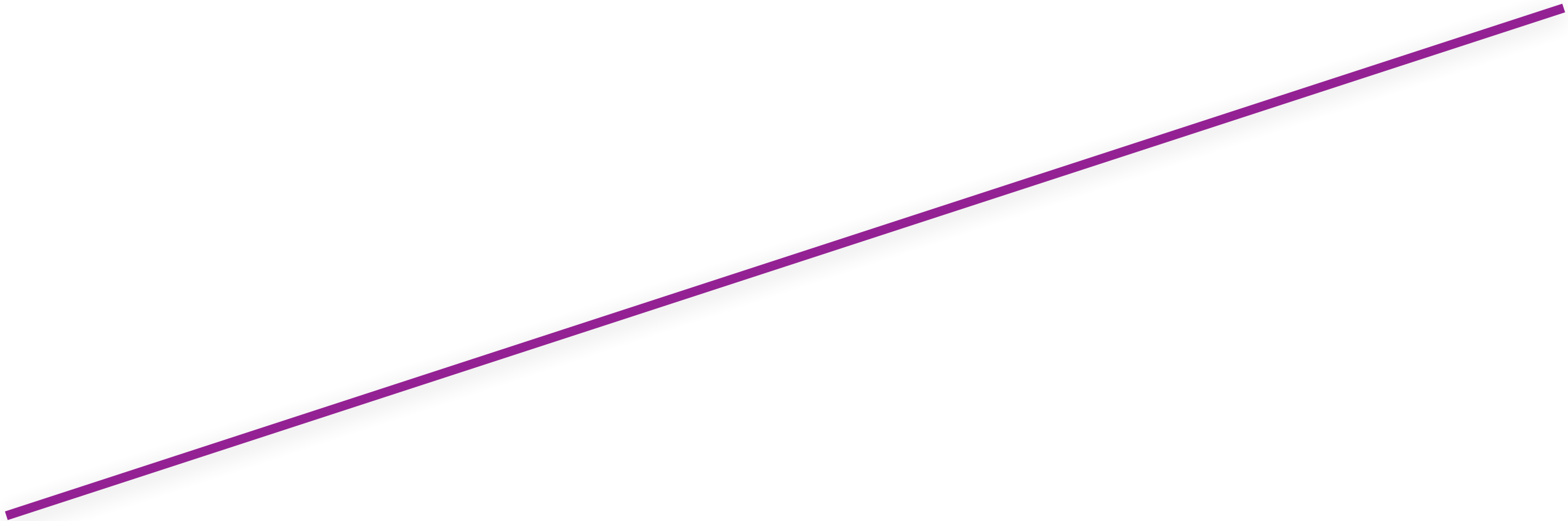
Equilibrium

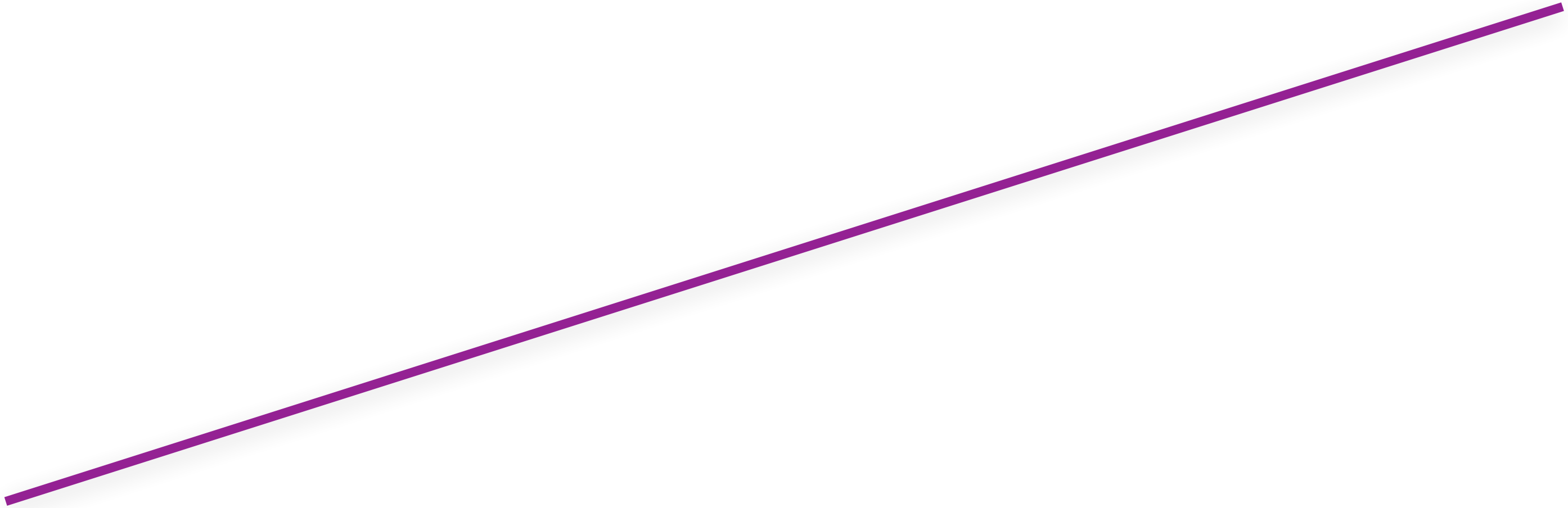


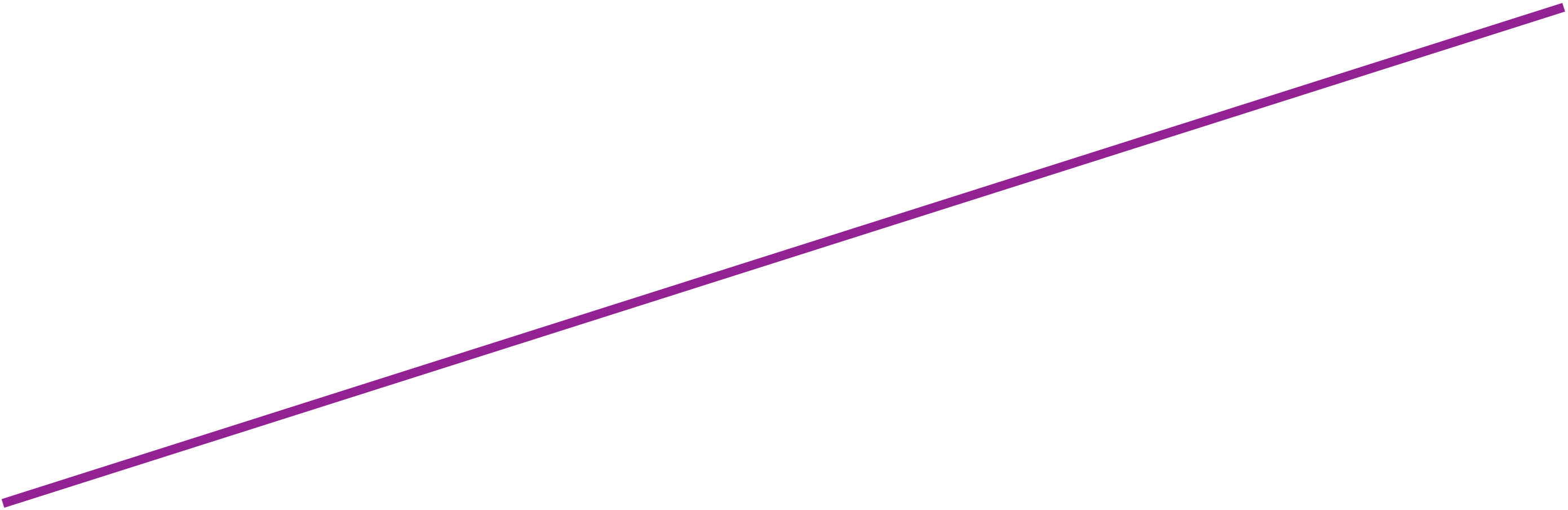
AE0

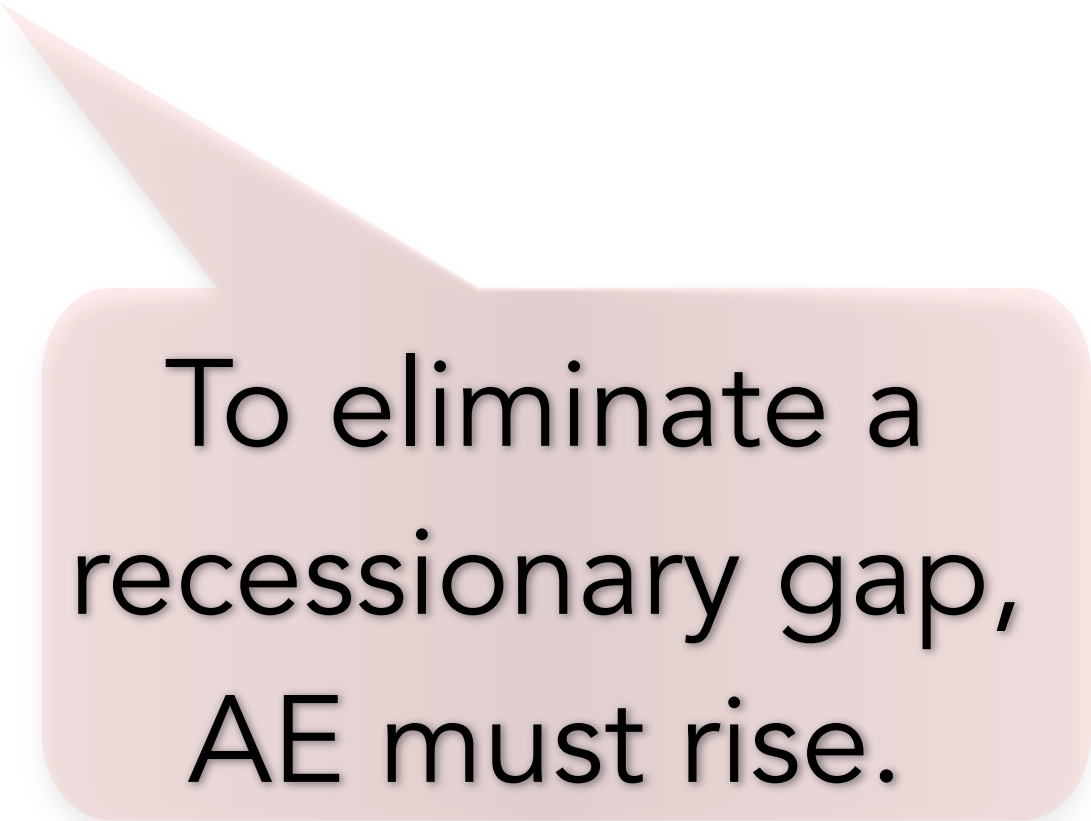
Potential GDP





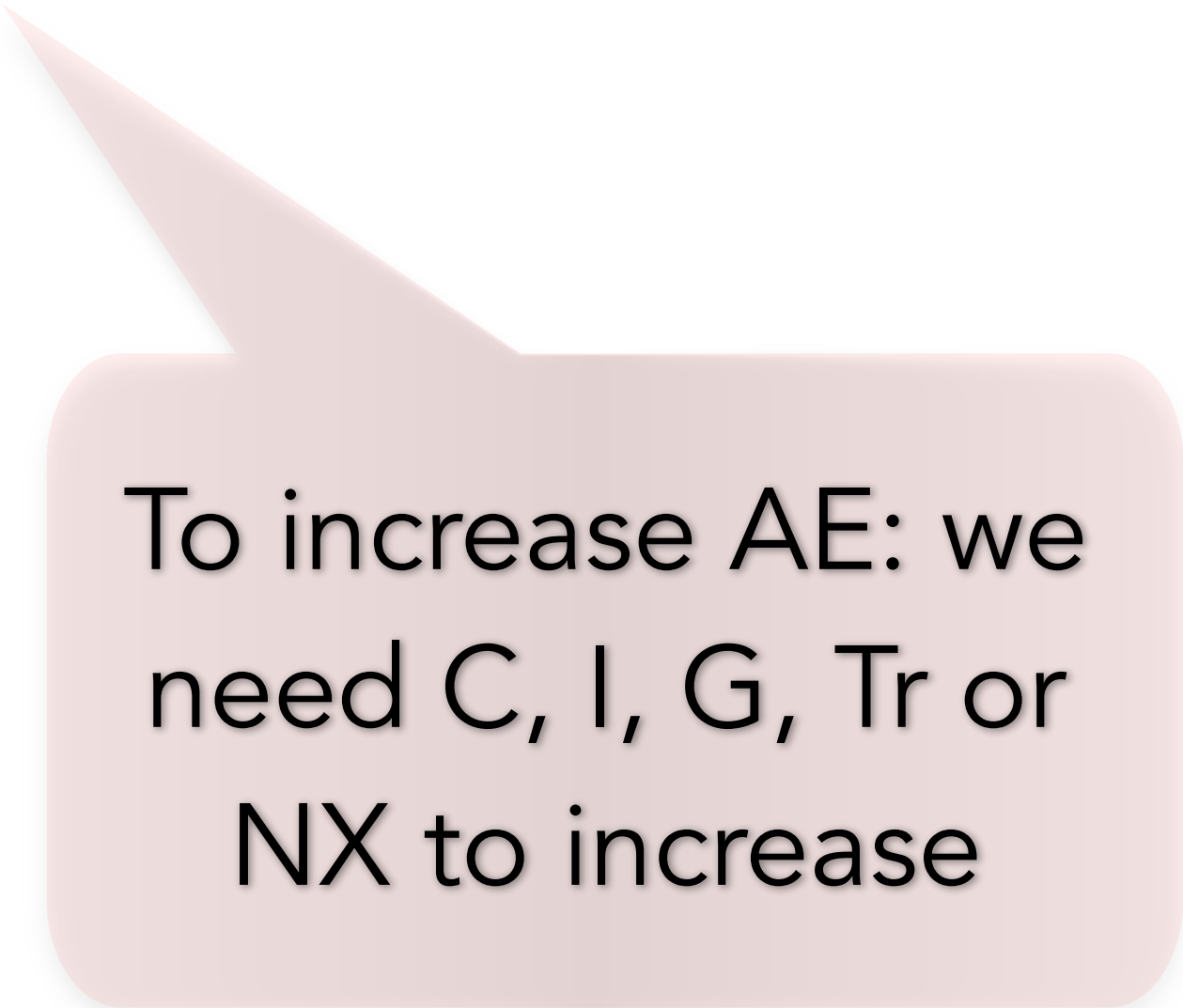






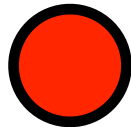
To eliminate a
recessionary gap,
AE must rise.

AE₁



To increase AE: we
need C, I, G, Tr or
NX to increase

Equilibrium =



Government Policy

To **increase C**: Decrease Taxes or Increase Transfers

To **increase I**: Decrease interest rates

Government may **increase** spending or

To **increase NX** make the dollar weaker to **increase X** and **decrease M**

Potential

GDP : 7,000



Recessionary
Gap

AE

Equilibrium = Potential
GDP

AE₁

Government Policy

To **increase C**: Decrease Taxes or Increase Transfers

To **increase I**: Decrease interest rates

Government may **increase** spending or

To **increase NX** make the dollar weaker to **increase X** and **decrease M**

To eliminate a recessionary gap, AE must rise.

To increase AE: we need C, I, G, Tr or NX to increase

Potential
GDP : 7,000

