

1. GDP = ?

2. Is total spending **larger** than / **smaller** than / equal to Output?

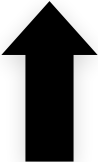
3. Do Inventories **fall**, **rise** or remain unchanged?

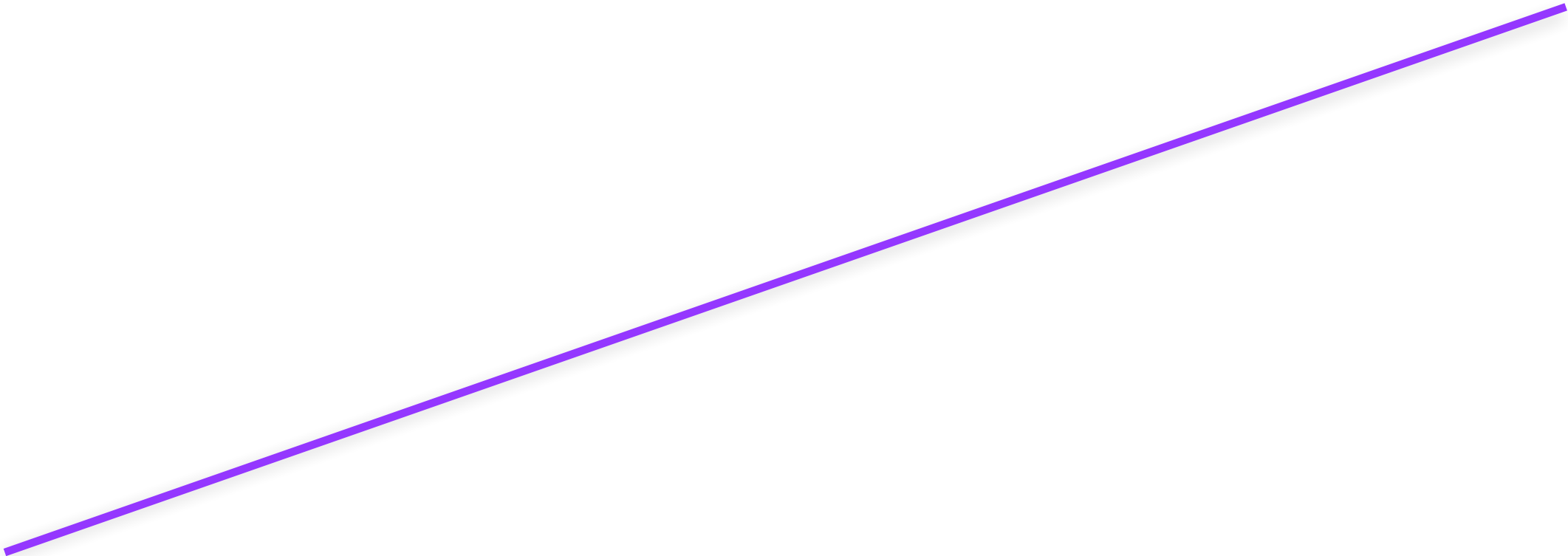
4. Does the economy experience a recessionary/inflationary gap?

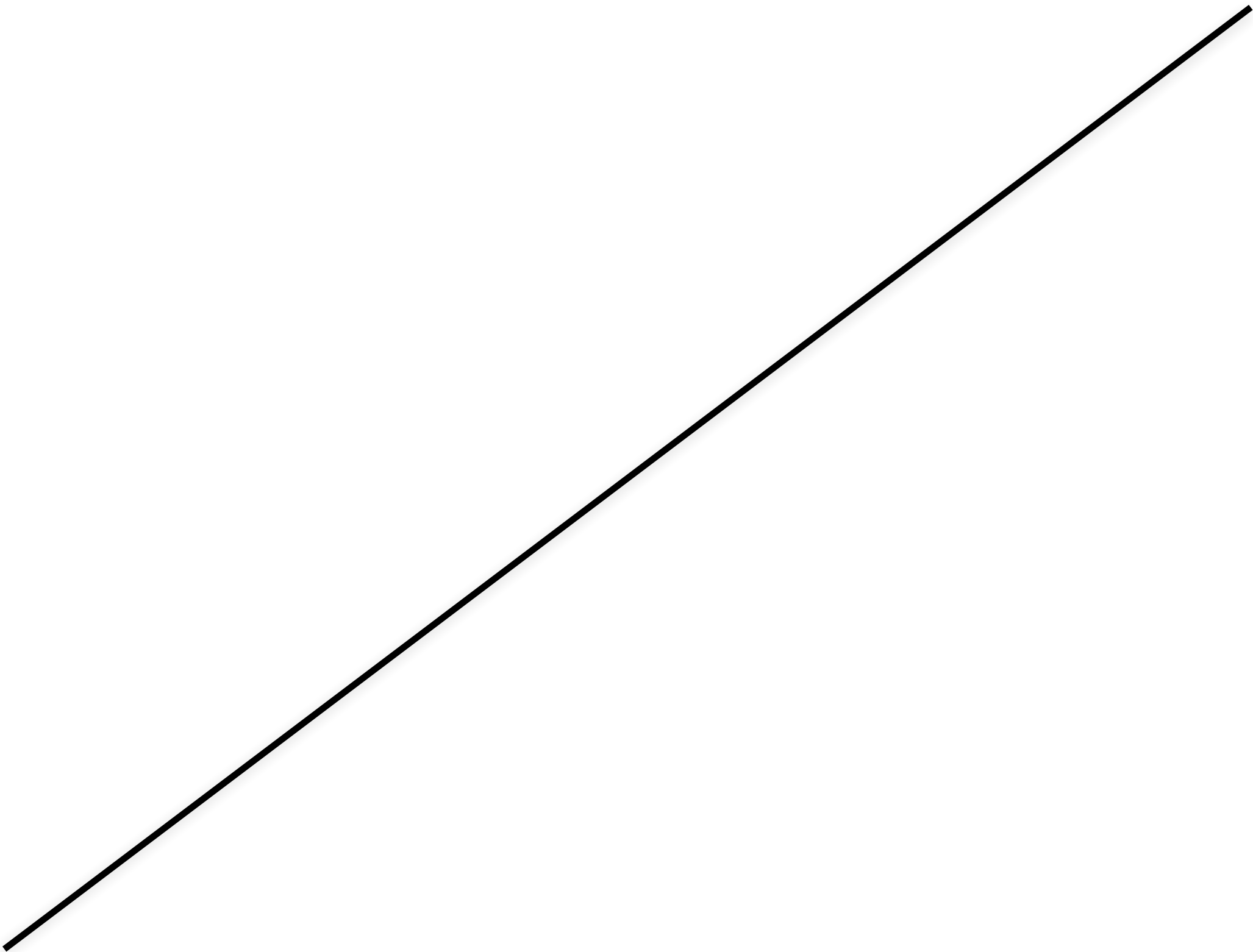
5. What is the size of the gap?

6. How can the gap be closed?

















GDP=4,000



$$AE = 4,000$$

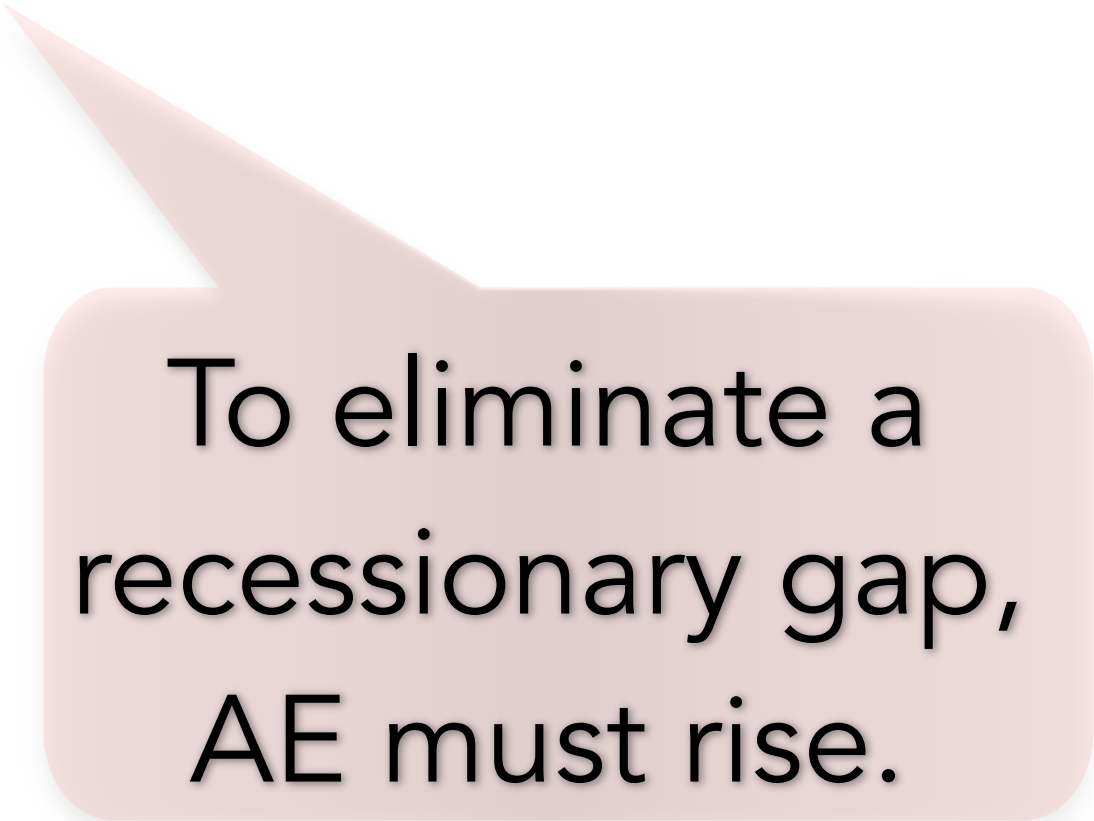
GDP=5,000







$$\text{Gap} = 5,000 - 4,000 = 1,000$$



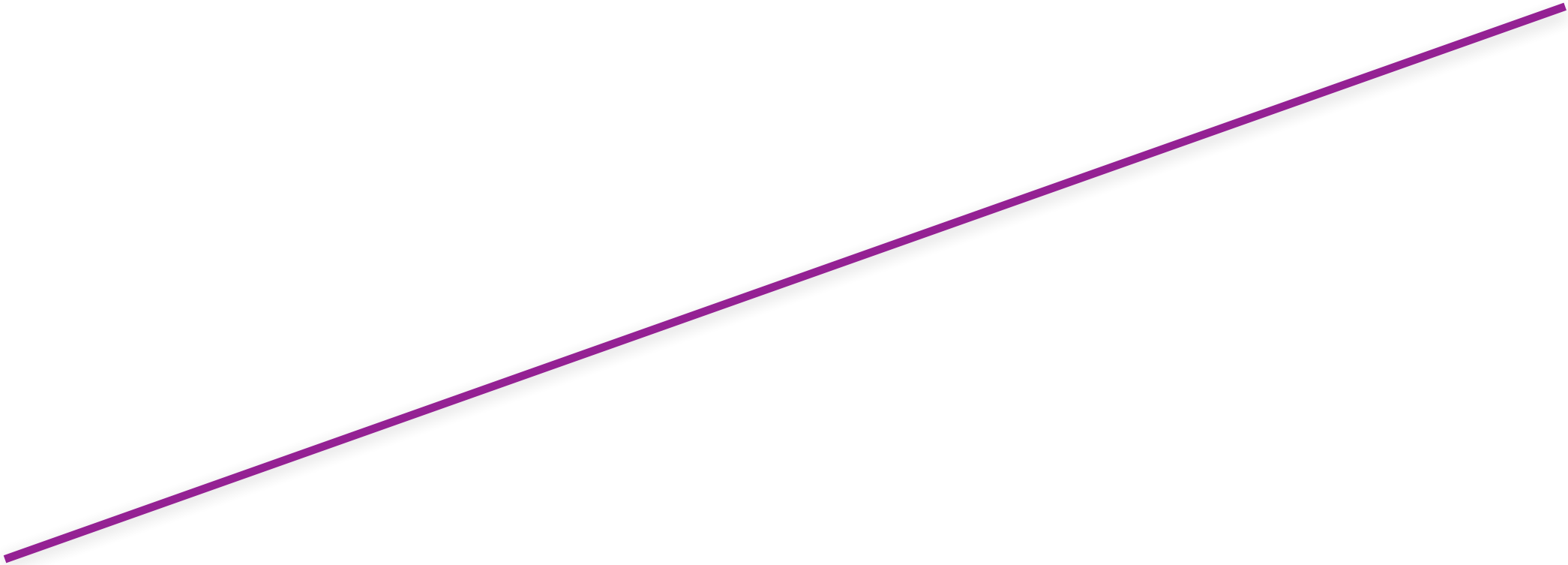
To eliminate a  
recessionary gap,  
AE must rise.





Output





AE<sub>1</sub>



Potential  
GDP

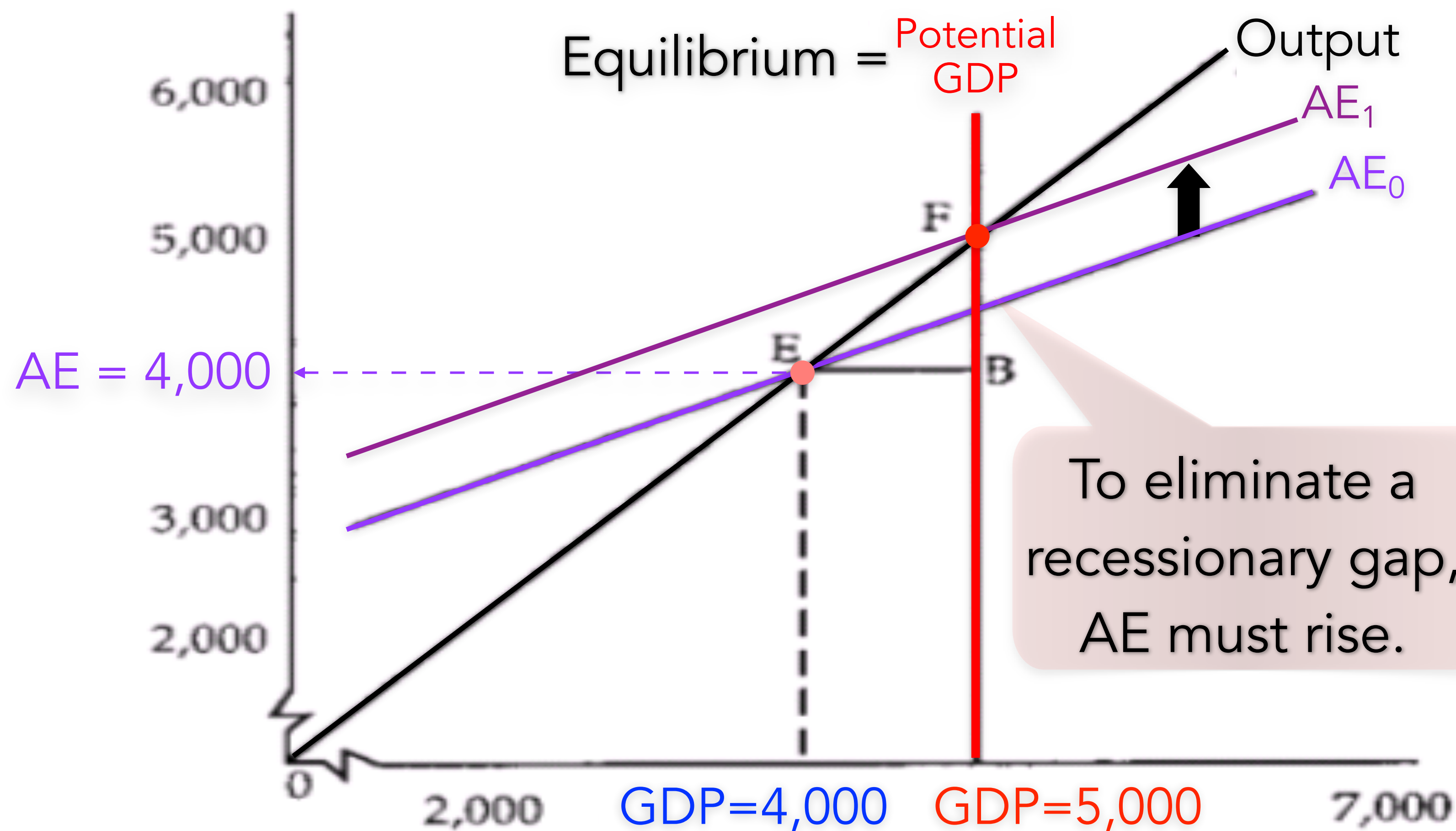
Equilibrium =



Or  $\text{Gap} = \text{Distance EB}$



AE<sub>0</sub>



1. GDP = ?
2. Is total spending **larger** than/**smaller** than/**equal** to Output?
3. Do Inventories **fall**, **rise** or remain **unchanged**?
4. Does the economy experience a **recessionary**/**inflationary** gap?
5. What is the size of the gap?  $\text{Gap} = 5,000 - 4,000 = 1,000$  Or  $\text{Gap} = \text{Distance EB}$
6. How can the gap be closed?

