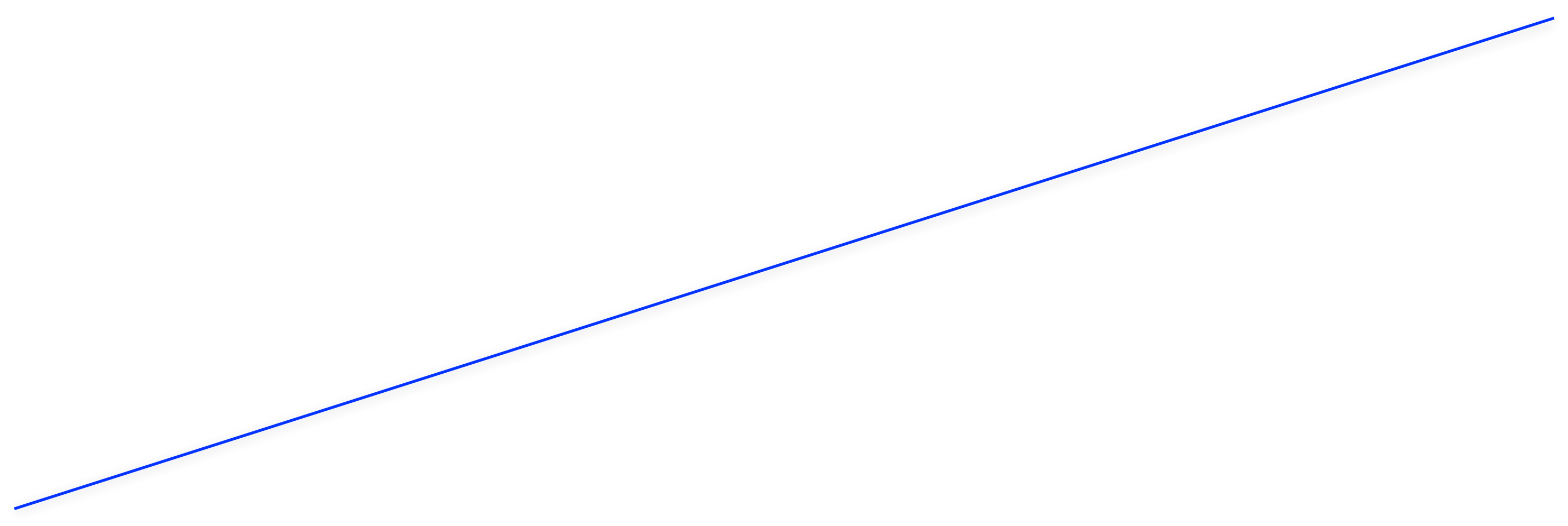


A

E





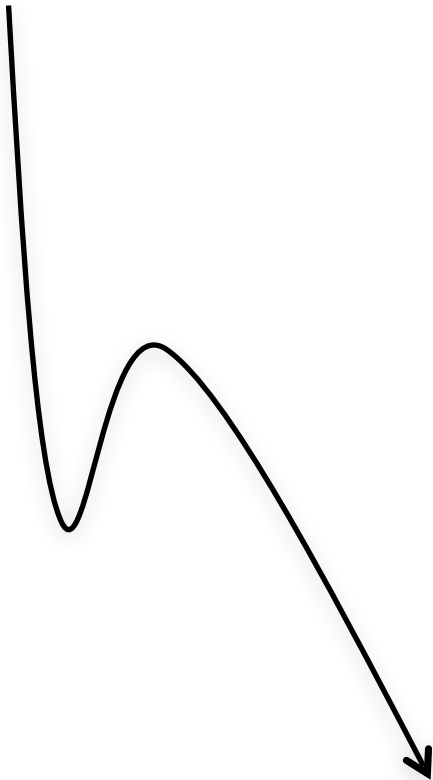


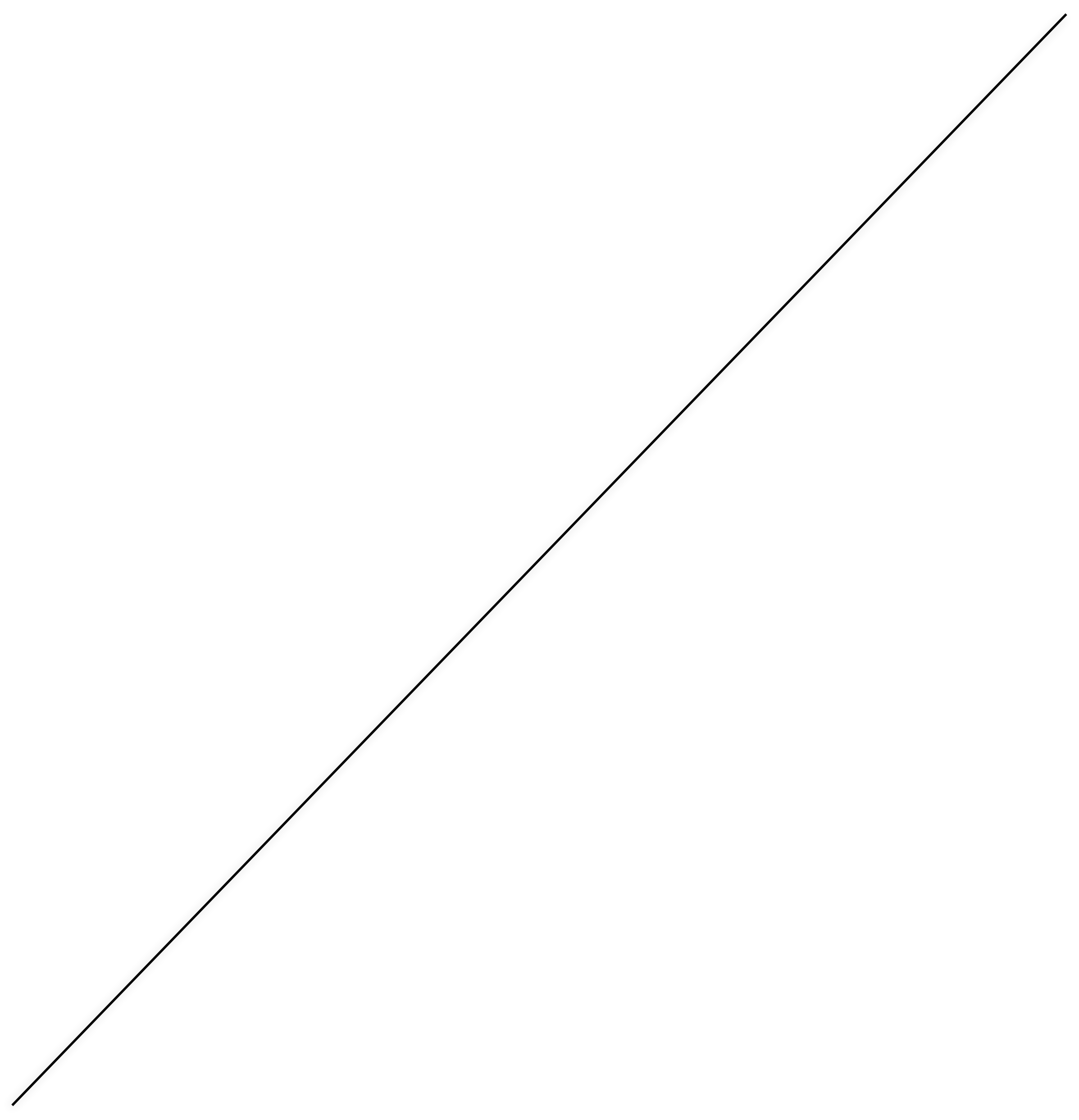




Higher  $Y^*$

# Equilibrium

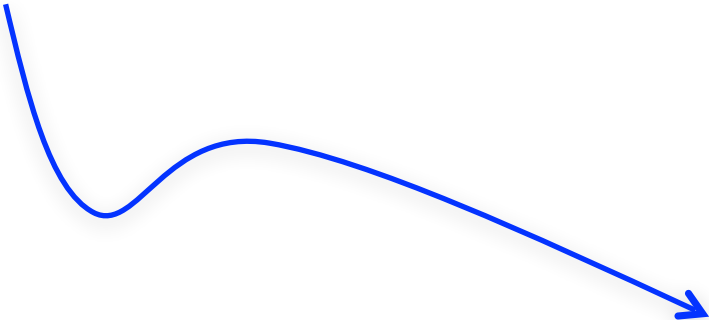












AE0



GDP/Income





Total

Production

Total  
Purchases



Inventories  
fall

A

E

1


Y

\*

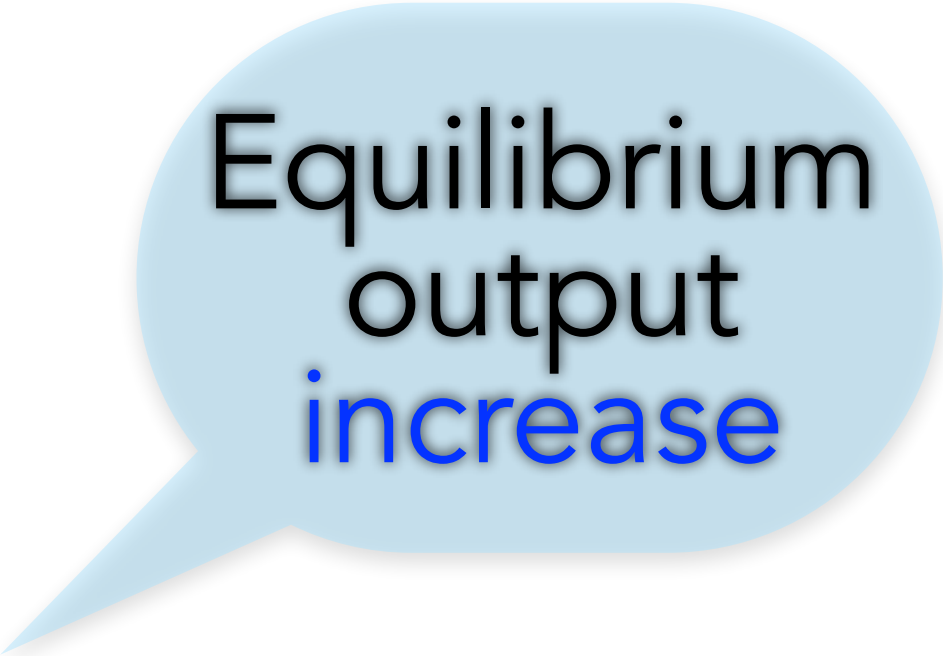
O

New Equilibrium





Firms increase  
output and  
employment



Equilibrium  
output  
increase



Unemployment  
decrease



AE line  
shifts up





































V





















V



































**N**









































2

















U







W



































































































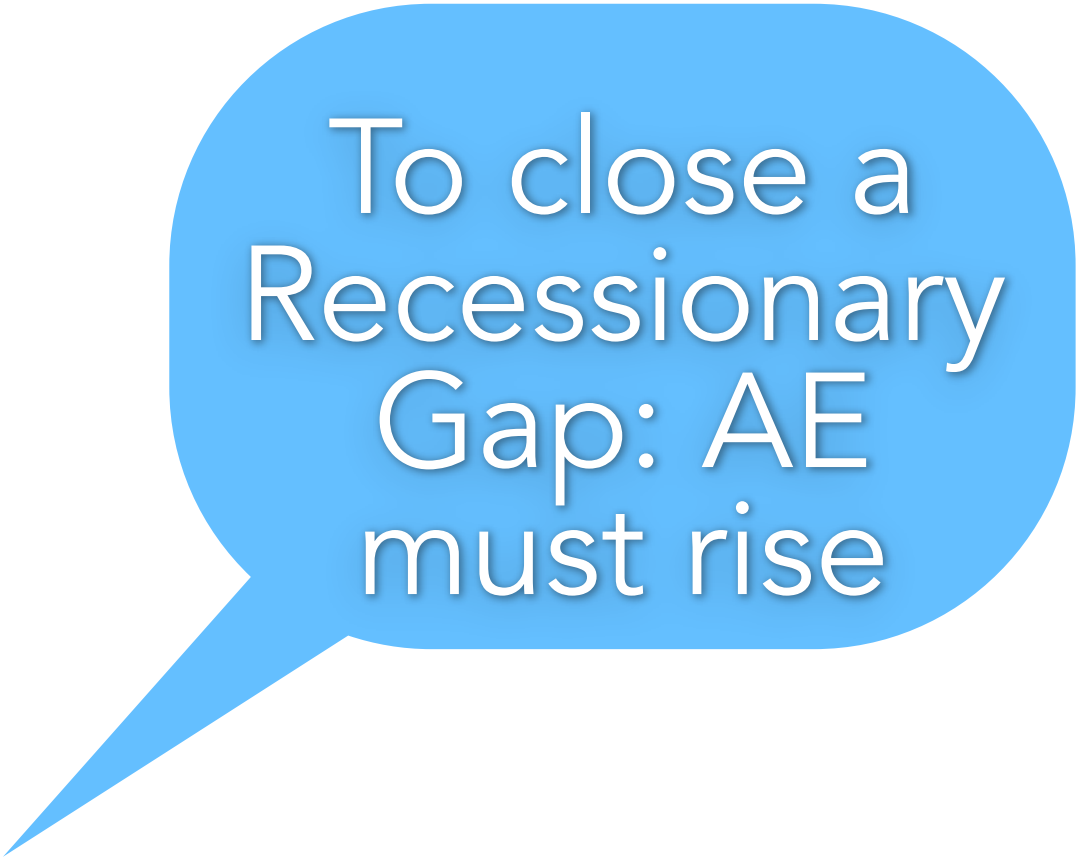




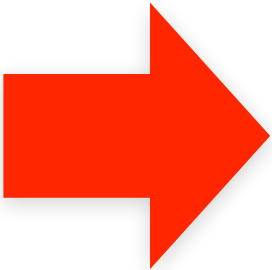








To close a  
Recessionary  
Gap: AE  
must rise



Autonomous  
Consumption  
increase

An **increase** in:  
Investment  
Government Spending  
Net Exports

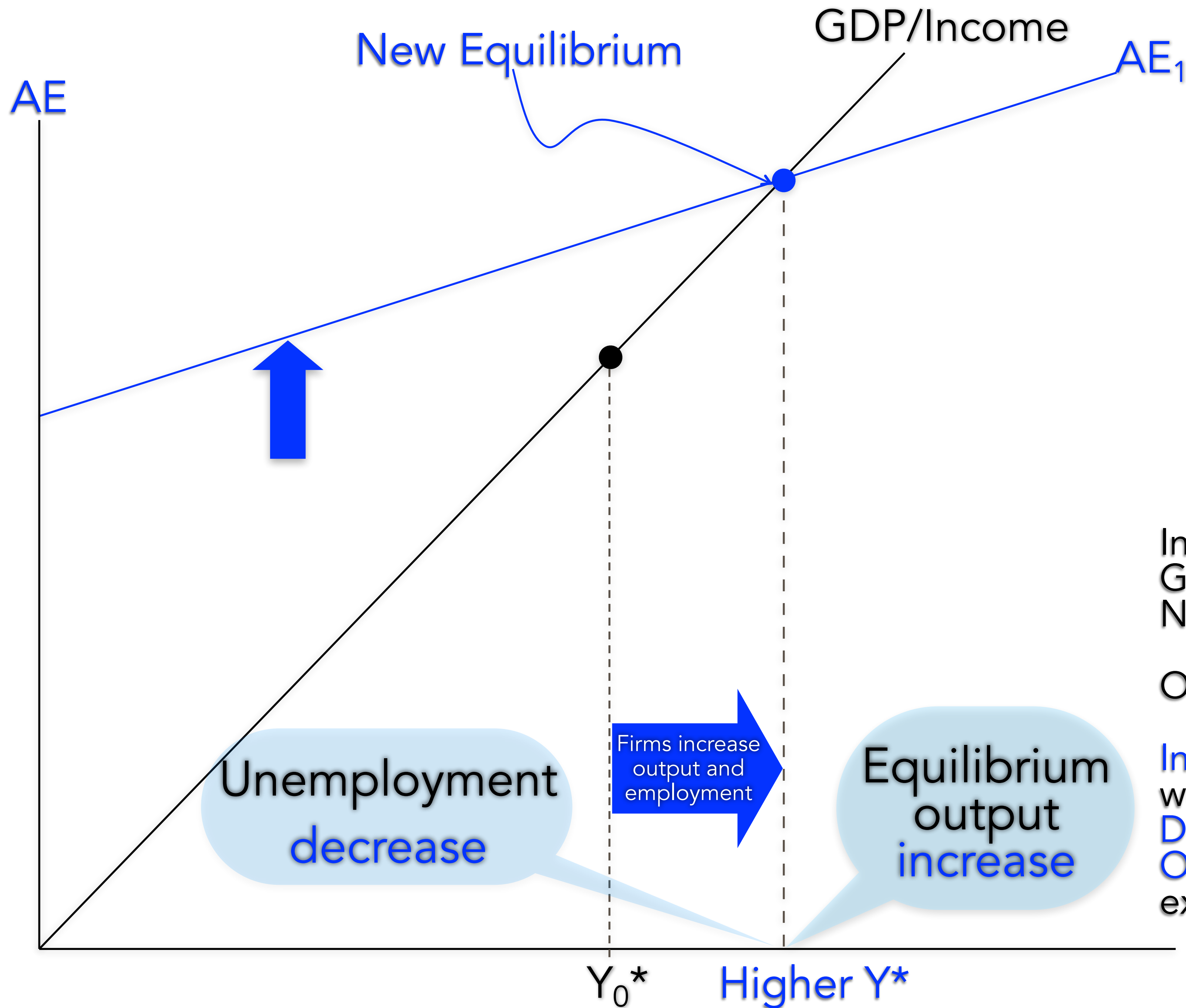
Or...

**Increase** in Consumer  
wealth

**Decrease** in CPI

**Optimistic** consumer  
expectations





To close a  
Recessionary  
Gap: AE  
must rise

An **increase** in:  
Investment  
Government Spending  
Net Exports

Or...

**Increase** in Consumer  
wealth  
**Decrease** in CPI  
**Optimistic** consumer  
expectations

Autonomous  
Consumption  
**increase**

