The difference between the potential national income (Yp) and the initial national income (Y1) indicates a gap. If Y1 < Yp, the economy is operating below its potential, which suggests a recessionary gap. Conversely, if Y1 > Yp, the economy is operating above its potential, indicating an inflationary gap.

In this case, since Y1 (1000) is less than Yp (1180), there is a recessionary gap. The economy is producing less than its potential output, and unemployment may be higher than the natural rate.

To close the recessionary gap, the government can use expansionary fiscal policy, which involves increasing government spending, decreasing taxes, or a combination of both. The objective is to increase aggregate demand, which will help to raise national income towards the potential level.

**Fiscal Policy Actions:**

1. **Increase Government Spending:** Direct spending by the government on goods and services can boost aggregate demand. The multiplier effect, which depends on the MPC, will amplify the impact of the initial increase in spending.
2. A white sheet of paper with black text

   Description automatically generated**Decrease Taxes:** Reducing taxes increases households' disposable income, leading to higher consumption. This also has a multiplier effect, depending on the MPC.

The recessionary gap is 180, and the fiscal multiplier is 4.0.

To close this gap using fiscal policy:

1. **Increase Government Spending (ΔG):** The government should increase spending by 45.0.
2. **Decrease Taxes (ΔT):** The government could alternatively decrease taxes by 60.0.

These measures would increase aggregate demand, helping to bring the economy closer to its potential output level of 1180.