Suppose fiscal policy is designed to reduce a budget deficit - along with that, monetary policy keeps Y from changing.

The fiscal policy of reducing deficits requires that the government's expenditures on goods be reduced (\( g \)), the taxes be increased (increased lump sum taxes or increased tax rates or reduced transfer payments) or some combination of these things. In all of these cases the IS Curve shifts LEFT. In order to keep Y from falling, the MP Curve must also shift LEFT by a certain amount.

**Consequence:** R falls quite a lot and Y stays fixed at \( Y_0 \) as Fed cuts rates in order to keep Y from falling.