

# Keynes's Theory of Employment

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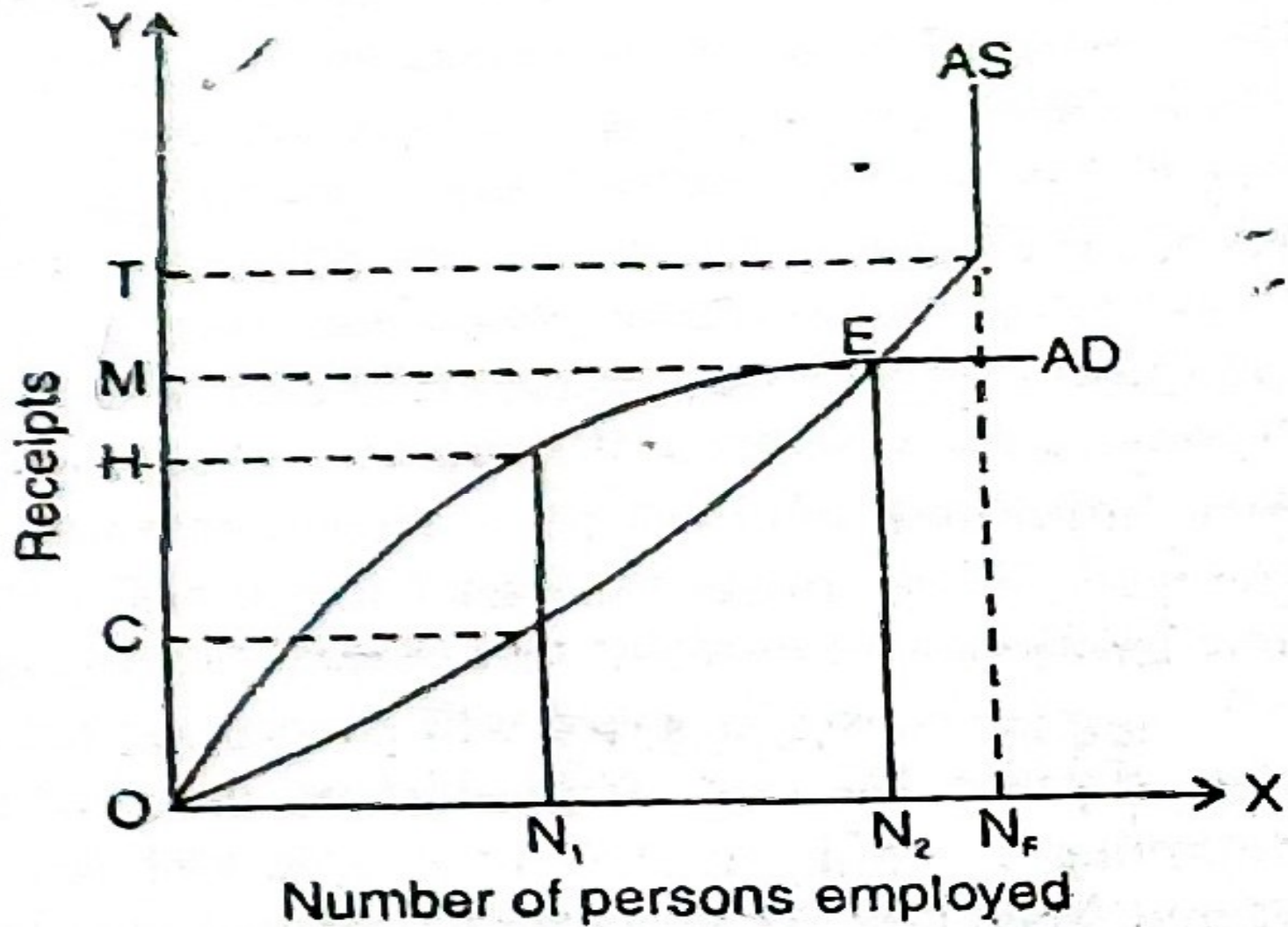
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# Effective Demand

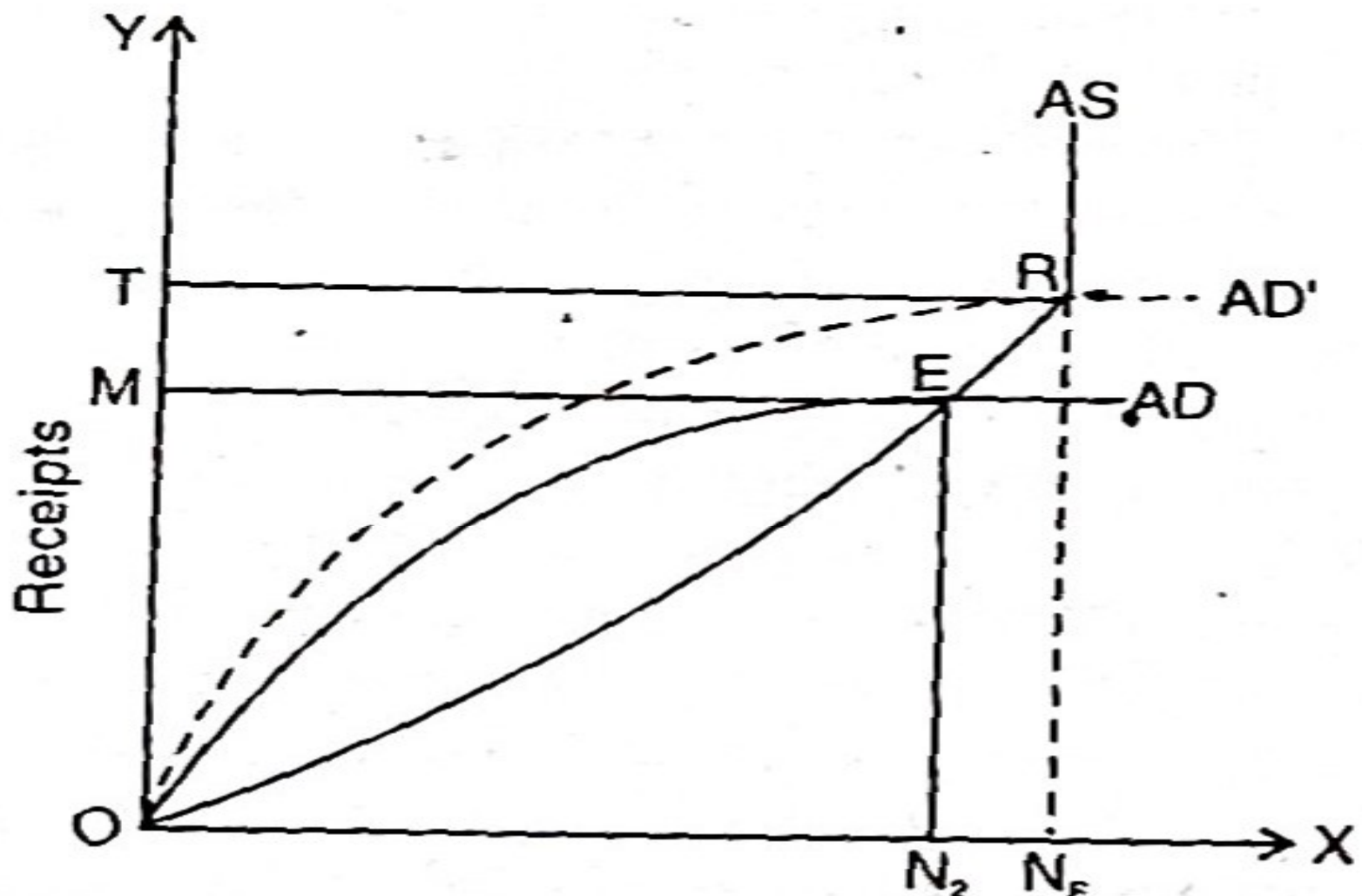
- Keynes's theory of employment based on "Principle of effective demand".
- The money actually spent by people on the products of industry.
- Aggregate demand equal aggregate supply.

# Aggregate demand and Aggregate Supply

- Aggregate supply price is the total amount of money which all the entrepreneurs in the economy taken together must expect to receive from the sale of output.
- Or AS price is total cost of production incurred by employing a certain number of labourers.
- Aggregate demand price at any level of employment is the amount of total money or price which all the firms or entrepreneurs in the economy actually expected to receive from the sale of output by given number of men employed.
- Or AD price represent the amount of expenditure expected by the entrepreneurs.



**Fig. 1.1 : Determination of Employment:  
Keynesian Theory**



Number of Persons Employed

Fig. 1.2

## Determination of National Income: Keynesian Theory

- Deal with short run
- The level of income of the country will change as a results of changes in the level of labour employment.
- Both income and employment go together
- AS depends on physical or technical condition of production.
- $AD = \text{Consumption (C)} + \text{Investment (I)}$
- $AD = C + I$
- Consumption demand depend upon propensity to consume
- $\text{National Income} = \text{Consumption} + \text{Saving}$

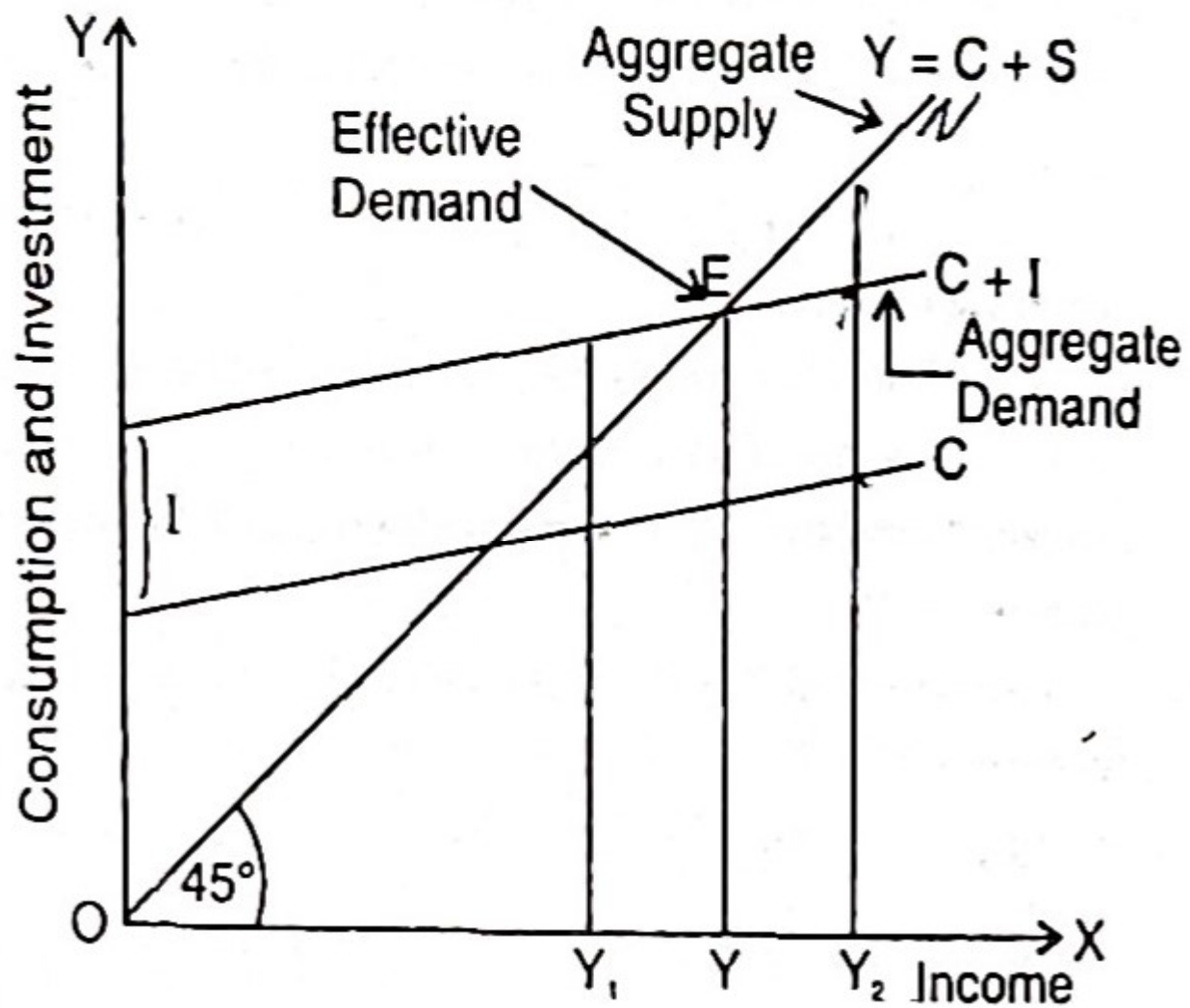
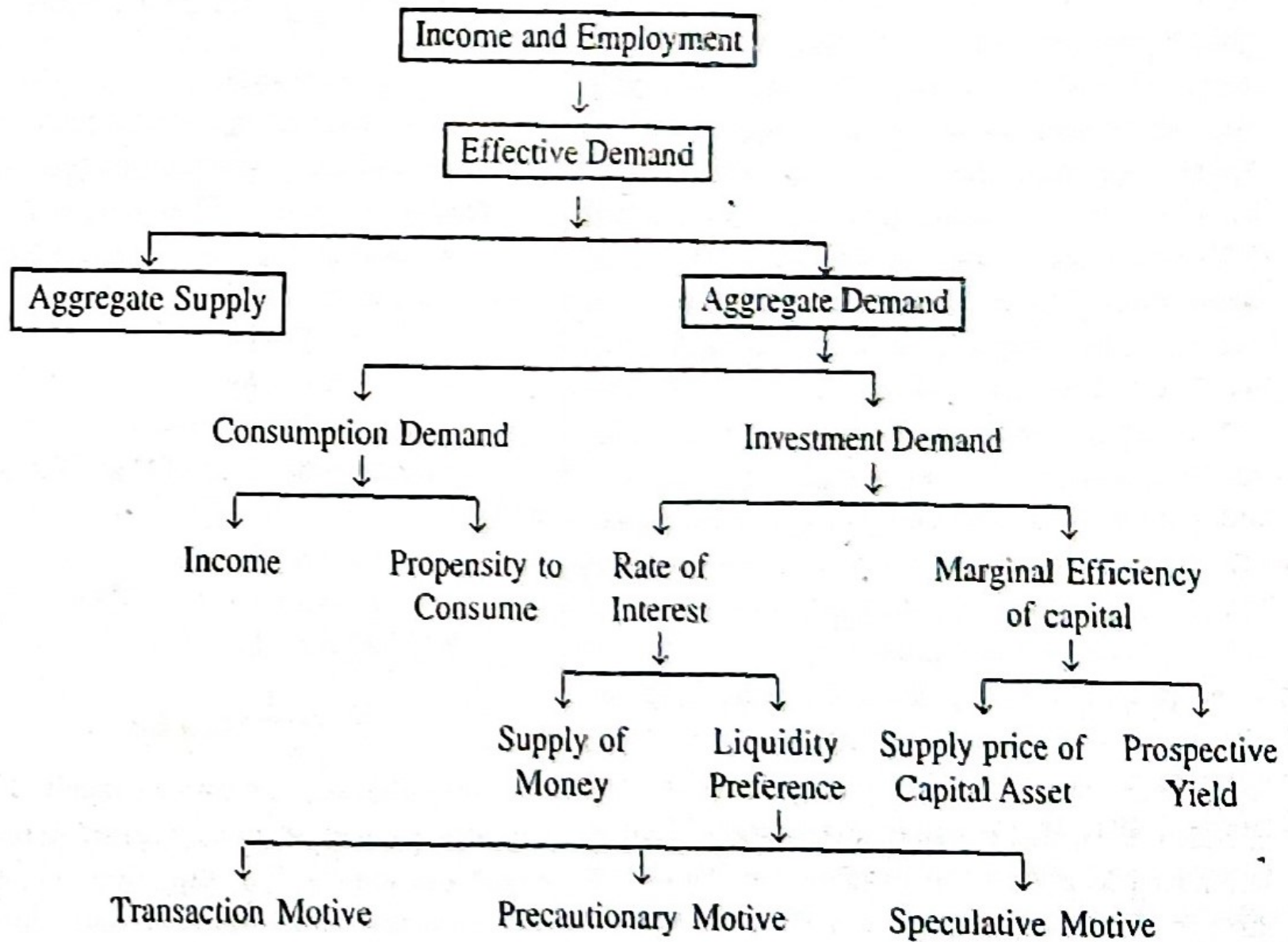


Fig. 1.3: *Equilibrium Level of National Income*

The Keynesian theory may also be presented in a tabular form as under:





Thank You