

Again in four sector system, the effective demand includes foreign sectors. Hence it constitutes of consumption, investment, govt expenditure and net foreign balance  $(X-M)$ .

$$E.D = C + I + G + (X - M)$$

### Aggregate demand :

There are two determinants of effective demand — the aggregate demand and aggregate supply. In this section we will discuss aggregate demand function.

The aggregate demand refers to sale proceeds expected by entrepreneurs at varying levels of employment. Suppose the entrepreneurs expect from sales an amount of Rs. 30 crore when 15,000 workers are employed, the expected sale proceed of Rs. 30 crore signifies the aggregate demand price.

According to Keynes, "The aggregate demand function relates any given level of employment to the expected proceeds from that volume of employment."

The aggregate demand function or aggregate demand schedule expresses the functional relationship between the employment and expected proceeds. It can be stated as  $D = f(N)$ .

As employment rises, the expected sale proceeds or aggregate demand price also rises and vice-versa. So, there is a direct functional relation between the aggregate demand (D) and the level of employment (N).



The aggregate demand function or aggregate demand schedule can be explained through Table-1

Table-1: Aggregate Demand Schedule

Level of Employment (In Lakh Workers)	Expected Proceeds (In Crore Rs.)
0	0
2	200
4	380
6	540
8	680
10	800

Table-1 shows that the expected proceeds or aggregate demand price goes on increasing as the volume of employment expands. Initially at zero employment, since output is zero, the expected proceeds are also zero. As 2 lakh employees are engaged more quantity is produced and the expected sale proceeds are Rs. 200 crore and finally at 10 lakh workers, aggregate demand price rises to Rs. 800 crore.



Figure-1

In Fig-1, employment is measured along horizontal scale and expected proceeds along the vertical scale.

Given the different levels of employment and corresponding levels of expected proceeds, the aggregate demand function (ADF) has been determined.

It starts from the origin and slopes upwards from left to right.

During the period of boom or expansion, the entrepreneurs expect to receive larger amounts by the sale of output at the same level of employment. It means the aggregate demand shifts upwards ( $ADF_1$ ), when larger sale proceeds are expected at the given levels of employment. On the opposite, in the period of depression, the entrepreneurs expect lower sale and hence the aggregate demand curve shifts downwards ( $ADF_2$ ).

