

The Aggregate Supply :

An entrepreneur must receive some minimum amount from the sale of product at a given level of employment; if that level of employment or output is to be worthwhile. If the producers are not able to recover even that amount of price, they will not maintain the supply.

The aggregate supply function relates different amounts of minimum expected proceeds or aggregate supply prices to different levels of employment. The aggregate supply function expresses the functional relationship between aggregate supply price (Z) or cost to the level of employment (N). This functional relationship can be stated as $Z = f(N)$.

The aggregate supply function or the aggregate supply schedule can be shown through Table-2

Table-2: Aggregate Supply Schedule

Level of Employment (in Lakh workers)	Minimum Expected Proceeds of Agg. Supply price (in Rupee)
0	0
2	180
4	360
6	540
8	720
8	900

Table-2, shows a direct relation between level of employment and the aggregate supply price. At zero level of employment, the aggregate supply price is also supposed to be zero. As employment rises to 2, 4, 6 & 8 lakh of workers,

the aggregate supply prices on employers must get are Rs. 180 crore, Rs. 360 crore, Rs. 540 crore, & Rs. 720 crore respectively. After 8 lakh workers are employed, the level of employment remains

unchanged signifying a state of full employment.

The aggregate supply curve or the aggregate supply function (ASF) is shown in Fig-(2).

In the Figwa-2, employment is measured along horizontal scale and expected proceeds along the vertical scale. Given the levels of employment and corresponding minimum expected proceeds in the

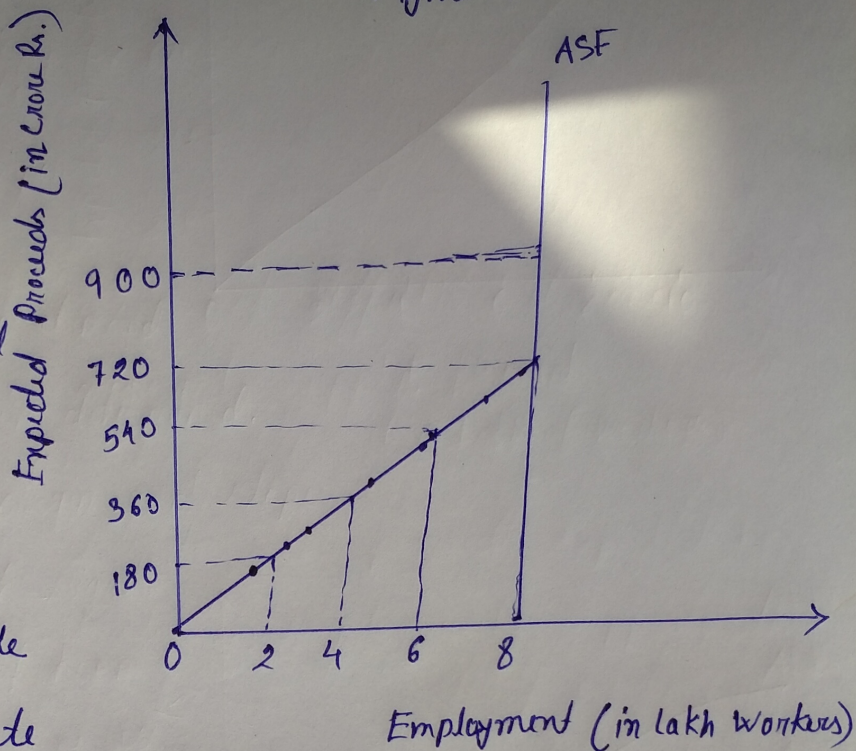


Table-2, the aggregate supply function has been drawn. It initially slopes upwards from left to right and at the level of employment (8 lakh workers), it becomes parallel to vertical scale because the aggregate supply price alone now rises, while the level of employment remains fixed.

Determination of effective demand: The effective demand signifies the short-run equilibrium between aggregate demand and aggregate supply. The point of effective demand is