

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 determined by the interaction between the aggregate demand and the aggregate supply functions. So long as the aggregate demand price is more than the aggregate supply price, the employers will tend to expand employment as they expect profits over costs. On the opposite, when the aggregate

supply price is more than the aggregate demand prices the costs being excess of expected sale proceeds, the volume of employment is likely to be reduced. The determination of the point of effective demand can be explained through following Table-3

Table-3: Determination of Effective Demand

Employment (In lakh workers)	ADP	ASP
0	0	0
2	200	180
4	380	360
6	540	540
8	680	720
10	800	900

The above Table-3 shows that $ADP > ASP$ at the employment of 2 lakh workers. Since the entrepreneurs expect profits over cost, they will increase employment. The expansion in employment continues even when 4 lakh workers are employed because $ADP (Rs. 380 \text{ crore})$ still exceeds the $ASP (Rs. 360 \text{ crore})$. When 8 lakh workers are employed, the $ADP (Rs. 680 \text{ crore})$ falls short of the $ASP (Rs. 720 \text{ crore})$. In this situation, since there is an expectation of losses, the entrepreneurs will tend to reduce employment. When 6 lakh workers are employed, the $ADP (Rs. 540 \text{ crore})$ is just equal to the $ASP (Rs. 540 \text{ crore})$. In this situation the entrepreneurs will have no tendency either to expand or to contract employment. This state