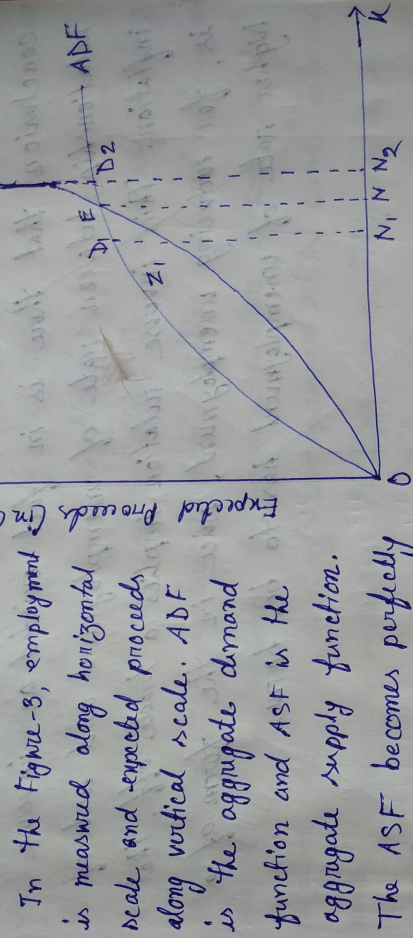


of equilibrium determines the point of effective demand. The point of effective demand can be shown with the help of Figure-3



In the Figure-3, employment is measured along horizontal scale and expected proceeds along vertical scale. ADF is the aggregate demand function and ASF is the aggregate supply function. The ASF becomes perfectly inelastic at the full employment level  $ON_2$ . If employment is  $ON_1$ , the aggregate demand price is  $D_1N_1$ , which is more than the aggregate supply price  $Z_1N_1$ . When  $ON_2$  workers are employed, the aggregate supply price is  $Z_2N_2$  and it is more than the aggregate demand price  $D_2N_2$ . When  $ON$  workers are employed, the aggregate demand price (EN) is just equal to the aggregate supply price (EN). The point of intersection 'E' between the aggregate demand function (ADF) and the aggregate supply function (ASF) is the point of effective demand & the equilibrium level of employment is  $ON$ .

- ① "Equilibrium not necessarily at full employment." Explain
- ② "Paradox of Poverty". Explain