# VIDYA BHAWAN BALIKA VIDYA PITH

## शक्तिउत्थानआश्रमलखीसरायबिहार

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**Revision Notes**

**Macro Economics 04**

**Determinations of Income and Employment**

**The investment expenditure is classified under two heads:**

(i) Induced investment

(ii) Autonomous investment.

**Induced Investment:** Induced investment refers to the investment which depends on the profit expectations and is directly influenced by income level (only for reference).

**Autonomous Investment:** Autonomous investment refers to the investment which is not affected by changes in the Level of income and is not induced solely by profit motive. It is income inelastic.

**Ex-Ante Savings:** Ex-ante saving refers to amount of savings which all the household intended to save at different levels of income in the economy at the beginning of period. It is also known as planned savings.

**Ex-Ante Investment:** Ex-ante investments refers to amount of investment which all the firms plan to invest at different level of income in the economy at the beginning of the period. It is also known as planned investment.

**Ex-Post Saving:** Ex-post savings refer to the actual or realised savings in an economy during a financial year at end of the period.

**Ex-Post Investment:** Ex-post investment refers to the actual or realised investment in an economy during a financial year at the end of the period.

**Equilibrium level** of income is determined only at the point where AD = AS or S = I, .i.e. the flow of goods and services in the economy is equal to the demand for goods and services But it cannot always be at full employment level also as it can be at less than full employment.

**Full employment** is a situation when all those who are able and willing to work at prevailing wage rate, get the opportunity to work.

**Voluntary unemployment** is a situation where person is able to work but not willing to work at prevailing wage rate.

**Involuntary unemployment** is a situation where worker is able and willing to work at prevailing wage rate but does not get work.

**Under employment** is a situation where all those who are able to work at existing wage rates, are not getting jobs. It refers to that situation in the economy where AS = AD or S = I, but without fuller utilisation of labour force.

**Investment multiplier** (K) is the ratio of change in income (ΔY) due to change in investment ΔI.

$$K = \frac{\Delta Y}{\Delta I} \quad \text{or} \quad K = \frac{1}{1 - MPC} \quad \text{or} \quad K = \frac{1}{MPS}$$

Value of investment multiplier lies b/w 1 to infinitive.

**Excess demand** refers to a situation when aggregate demand exceeds aggregate supply corresponding to full employment.

**Inflationary gap** is the gap by which actual aggregate demand exceeds the level of aggregate demand required to establish full employment.

It measures the extent of excess demand.

**Deficient Demand:** When AD falls short of AS at full employment it is called deficient demand.

In other words, AD < AS at the level of full employment. It is called deficient demand.

**Deflationary gap** is the gap by which actual aggregate demand is less than the level of aggregate demand required to establish full employment.

It measures the extent of deficient demand.

**Methods to control excess demand or deficient demand:**

**1. Fiscal Measures or Fiscal Policy**

a. Change in Tax

b. Change in Public expenditure

c. Change in Public borrowing

d. Deficit financing (Printing new notes)

**2. Monetary Measures or Monetary Policy**

**a. Quantitative measures**

i. Bank rate

ii. Cash Reserve Ratio

iii. Statutory Liquidity Ratio

iv. Open Market operation

**b. Qualitative/Selective measures**

i. Marginal requirement

ii. Rationing of credit

iii. Direct Action

iv. Moral Suasion