1. Aggregate demand refers to sum total of demand for all goods and services in an economy during the period of an accounting year .AD = C + I
2. The four main components of aggregate demand in four sector economy are
* private consumption expenditure
* investment expenditure
* Government expenditure and
* Net Exports
1. Aggregate supply is the total flow of goods and services in an economy during 1 year AS=C+S
2. Consumption function States the relationship between consumption and income. It is the functional relationship between consumption and national income C=f(Y)
3. Marginal propensity to consume is the ratio of change in consumption expenditure to change in income over a period of time MPC =
4. Autonomous consumption is the level of consumption at zero level of income it is always positive
5. Average propensity to consume is the ratio of total consumption expenditure to total income at a given level of income in an economy
6. Marginal propensity to save is defined as the ratio of change in savings to the change in income of economy
7. Average propensity to save is defined as a ratio of total savings to the corresponding total income of the economy
8. The sum total of APC and APS is equal to 1
9. The sum total of MPC and MPS is equal to 1
10. Ex Ante savings refers to the amount which savers plan to save at different levels of income in an economy.
11. APS can be negative when consumption is more than income.
12. Ex Post savings is the actual saving and ex post investment is the actual investment in an economy during one year
13. Involuntary unemployment refers to a situation in which all those who are willing and able to work at the existing wage rate do not get work.
14. Under employment equilibrium refers to a situation in which aggregate demand is equal to the aggregate supply at the level where all resources are not fully employed.
15. Investment multiplier is the ratio of change in income to the initial change in investment expenditure
16. The minimum value of multiplier will be ONE
17. If marginal propensity to save is zero the multiplier will be infinity multiplier is inversely related to marginal propensity to save
18. Excess demand refers to the situation when aggregate demand is more than the aggregate supply corresponding to full employment level in the economy
19. Deficient demand refers to the situation where aggregate demand is less than the aggregate supply corresponding to full employment level in the economy
20. Excess demand refers to the situation when aggregate demand is more than the aggregate supply corresponding to the full employment level in the economy
21. Inflationary gap shows the gap by which actual aggregate demand exceeds the aggregate demand required to maintain the full employment equilibrium it is equal to Excess demand
22. Deflationary gap shows the gap by which actual aggregate demand for short of the aggregate demand required to establish full employment equilibrium it is equal to deficient demand.
23. Government uses taxes and public Dept in order to correct the inflationary gap.
24. Differentiate between voluntary unemployment and involuntary unemployment voluntary unemployment refers to a situation which a person is not willing to work at the existing wage rate involuntary unemployment refers to a situation in which all those who are willing and able to work at existing wage rate do not get work

In case of voluntary unemployment workers are willing to accept any work but in involuntary unemployment they are unwilling to work.

Voluntary unemployment is not counted while measuring the size of an employment but involuntary unemployment is taken into consideration while estimating the total unemployment in the country.

1. How do an economy at just when aggregate demand is greater than aggregate supply or Aggregate demand is less than the Aggregate Supply.

According to Keynesian theory the equilibrium level of income is determined where planned level of aggregate demand is equal to planned level of aggregate supply. Aggregate demand is represented by C+ I curve that is the consumption expenditure by the household and investment by the firm.

If aggregate demand is more than the aggregate supply the economy will produce for the till it reaches equilibrium.If the demand is more the producers expand production and this raises the employment level output level and turn income level these levels keep rising still AD is equal to AS

If AS is greater than AD in order to avoid further accumulation of inventory as producers will reduce the production this reduces the level of employment level of output and level of income Keep Falling till AD is equal to AS.