

Determination of Equilibrium level of Income and Output

Presented by

Shraddhanjali Bhattacharjee

Department of Economics

Dr. B. K. B. College, Puranigudam

Date: 23-08-2021

Equilibrium level of Income and Output

- Equilibrium level of output or income is that level of income output where $AD=AS$ in an economy

- Thus at equilibrium point,

$$AD = AS$$

Since, $AD = C + I$

And, $AS = C + S$

Equilibrium is struck when,

$$C + I = C + S \dots \dots \dots (1)$$

At equilibrium point,

$$I = S \dots \dots \dots (2)$$

- Equilibrium level of income is arrived at, $AD = AS$ and $Saving = Investment$

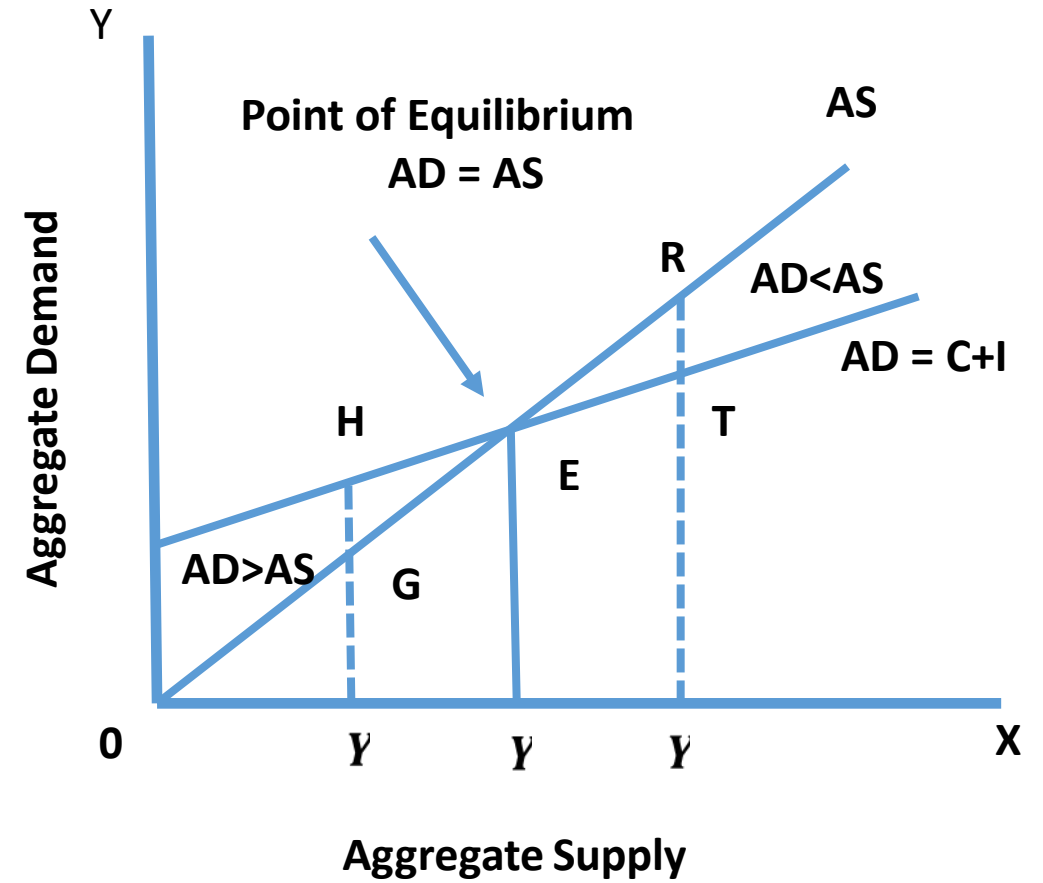
AD-AS Approach

- According to Keynes, An economy will be equilibrium, when $AD = AS$

Income (Y)	Planned Consumption (C)	Planned Investment (I)	Planned Saving (S)	AD	AS	Remarks
(1)	(2)	(3)	(4= 1-2)	(5= 2+3)	(6)	(7)
0	100	100	-100	200	0	AD>AS Level of income and employment of factor services will increase
100	150	100	-50	250	100	
200	200	100	0	300	200	
300	250	100	50	350	300	
400	300	100	100	400	400	Equilibrium
500	350	100	150	450	500	AD<AS, Level of income and employment will fall
600	400	100	200	500	600	

- The economy attains equilibrium at income level Rs. 400 crores where $AD = AS$.
- At this level of income, household would like to consume Rs. 300 crores
- Firms would like to invest Rs. 100 crores
- Planned expenditure is Rs. 400 which is equal to AS.

Income Determination by AD-AS Approach



Thank You