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Keynes said there could be different sources of national income, such as government, foreign trade, individuals, businesses and trusts. To measure national income, Keynes divided the various sources of income into four sectors, namely the household sector, the business sector, the public sector and the foreign sector. It has produced three models for determining national income, as shown in Figure 1: the two-home economic model includes only households and businesses, while the three-home model represents households and the Government. On the other hand, the four-sector model contains households, businesses, the Government and the foreign sector. Let's discuss these three types of income models given by Keynes. The definition of national income in the economy of two sectors: Determining the level of national income in the economy of the two sectors is based on the assumption that the economy of the two sectors is an economy in which there is no government intervention and foreign trade. In addition, the economy can be a two-branch economy if it meets the following assumptions: a. Includes only two sectors, namely households and enterprises. Households are the owners of factors of production and provide factor services to enterprises for livelihood in the form of wages, rents, interest and profits. In addition, households are consumers of the final goods and services produced by enterprises. On the other hand, enterprises purchase factor services from households to produce goods and services and sell them to households. B. Has no government intervention. If the government exists, it plays no role in the economic activity of the country. For example, in the economy of the two sectors, the Government is not involved in activities such as taxation, expenditure and consumption. C. It consists of a closed economy in which foreign trade does not exist. In other words, there are no import and export services in such an economy. D. Does not contain any profit that is not distributed or savings by the organization. In other words, the profits earned by the organization are fully distributed in the form of dividends among shareholders. E. Keeps the prices of goods and services, the supply of inputs and production techniques constant throughout the life cycle of the organization. Keynes believed that there were two main factors that determine the country's national income. These two factors are the aggregate supply (AS) and the aggregate demand (AD) of goods and services. In addition, he believes that the equilibrium level of national income can be estimated when THESAS. Before we present the relationship between AS and AD on the chart, let's understand these two concepts in detail. Total deliveries: can be defined as the total value of goods and services produced and delivered at a certain point in time. It's This. consumer goods, as well as manufacturers. When goods and services produced at a particular point in time are multiplied by the corresponding prices of goods and services, they provide the total cost of national production. National production is a cumulative proposition in the form of monetary value. The Keynesian AS curve is based on the assumption that total income is equal to total expenses. In other words, the total income generated is fully spent on different types of goods and services. The correlation between income and expenditure is represented by angle 45, as shown in Figure-2: According to Keynes's theory of national income, total income is always equal to consumption and savings. The formula used to determine total income: Total Income and Consumption (C) - Saving (S) So the AS schedule is commonly referred to as chart C s S. Curve AS is also called the Cumulative Expenditure Curve (AE). Cumulative demand: AD refers to effective demand, which is equal to actual costs. Cumulative effective demand refers to the total expenditures of the economy within a certain time frame. AD includes two concepts, namely AD for Consumer Goods or Consumption (C) and Total Demand for Capital Goods or Investment (I). Thus, AD can be represented by the following formula: AD and C, so the AD graph is also called the C-I schedule. According to Keynes the theory of determining national income in short-term investments (I) remains constant throughout the AD schedule, while consumption (C) continues to change. Thus, consumption (C) acts as the primary determinant or function of income (Y). The consumption function can be expressed as follows: C and a bY Where, a - constant (representing consumption when income is zero) b - share of income consumed -  $\Delta C/\Delta Y$ , replacing the value of consumption in the AD equation, we get: AD - bY - I will prepare a

schedule OF AD, assuming that the investment is 50 billion rubles, and product consumption function:  $C = 50 + 0.5 Y$  Therefore, the cumulative demand will be:  $AD = b + Y + I + AD - 0.5 Y - 50$  AD 100 - 0.5 Y Cumulative demand graph at various income levels is presented in table-1: In table-1, the income column represents a cumulative supply, and the column of total demand represents costs. Table-1 shows that at an income level of 200 billion rubles, aggregate demand and aggregate supply are equal. Thus, 200 billion rubles is the point of equilibrium for the economy of the two sectors. Figure-3 is a graphic representation of the definition of national income in the economies of the two sectors: Figure 3 of the AU graph assumes that total income and total expenditures are equal. Thus, the numerical value of the AS graph is one. Ad schedule prepared by adding graph C and I. The demand and aggregate supply intersect at E point, which is called the equilibrium point. The income level at the time of E is 200 billion rubles, which is the national income of the economy. The schedule curve after Point E represents that AS is larger than AD (AS > AD). In such a situation, the cost of goods and services is more than 200 billion rubles; that's why households don't want to buy them. Therefore, the supply of goods and services exceeds their demand. As a result, businesses will have a bunch of unsold stocks. For example, in Table 1, when the income or total supply is 300 rubles, the total demand or expenses is 250 rubles, which is less than the total supply. Similarly, below point E, THE AD and AS charts suggest that aggregate demand is greater than total supply. In this case, the production of enterprises is less than the demand of households. Therefore, enterprises are beginning to produce more and more products and services. For example, in Table 1, when the income or total supply is 100 rubles, the total demand is 150 rubles, which is more than the total supply. The equilibrium state of the definition of national income can be expressed as follows: Cumulative demand and aggregate demand  $C + I = C + HS$  Therefore,  $I = S$  Thus, national income can be determined by either aggregate demand and aggregate supply schedules or investment and savings schedules. These two methods of income determination are classified as an approach to income and expenditure and an approach to investment in savings. Income and Expenditure Approach: The income and expenditure approach refers to a method in which aggregate demand and aggregate supply schedules are used to determine national income. In this method, the equilibrium point is reached when the following condition is satisfied:  $C + I = S + Y$ , thus, the equilibrium condition of determining national income will become:  $Y = C + I$  At the point of equilibrium, consumption equals:  $C = b + Y$  Replacement of  $C$  in the state of national income equilibrium, we get:  $Y = a + bY + I$  Or,  $Y(1 - b) = a + I$  Thus,  $Y = \frac{a + I}{1 - b}$  (a) To determine national income by approach to income and expenditure, let's assume that the consumption function is  $C = 200 + 0.5Y$ , and  $I = 150$ . In this case, the National Income can be calculated as follows:  $Y = C + I = 200 + 0.5Y + 150$   $1 - 0.5Y = 350$   $Y = 700$  Thus, the national income balance in this case is 700 rubles. A graphic representation of the definition of national income using the income and expenditure approach is shown in Figure-4: Figure 4 of Graph C + S shows the aggregate supply of income, while Graph C and I indicates aggregate demand. The cumulative demand graph is compiled by adding graphs C and I. demand and the supply schedule intersects with each other at point E and the income level at the moment is 700 rs. This means that the national income in the economy of the two sectors is 700 rubles. In the short term, the equilibrium point remains unchanged, meaning that national income remains unchanged. If there is any type of increase or decrease in aggregate supply/demand, then they themselves fluctuate so that they reach back to the point of equilibrium. Save-investment approach: The Conservation-Investment approach refers to the method of using savings (S) and investment (I) to determine national income. The condition for achieving balance through the approach to savings and investment is that savings and investments are equal ( $I = S$ ). Let's take the previous assumption that the consumption function is  $C = 200 + 0.5Y$  and  $I = 150$  to determine national income through the investment savings approach. In this case, the save function can be defined as follows:  $Y = C + S$  Or,  $S = Y - C = Y - (a + bY) = Y - a - bY = Y(1 - b) - a$  Therefore, in this case, the save function will be:  $S = 200 - 200(1 - 0.5) = 200 - 100 = 100$   $Y = S = 100$  In the equilibrium point and  $S = I = 150$  Level of national income in equilibrium point the same in both cases, approach to income and expenditure and approach to savings and investment. Figure-5 provides a graphic representation of the definition of national income through an approach to investment savings: in Figure 5, the equilibrium point is at E level, where the investment and savings curve intersects with each other. National income at the equilibrium level is 700 rubles. Shifts in the aggregate demand graph: In the above, you have learned to determine the equilibrium level of national income according to this AD chart, which is the C.I. Changing the aggregate demand schedule may lead to changes in the equilibrium level of national income in the economies of the two sectors. It is therefore necessary to study and understand the shifts that occur in the AD graph and to identify measures to bring the balance back. In the economies of the two sectors, the change in the AD schedule is due to changes in consumption or investment schedules, or simultaneously in both sectors. However, changes in the consumption schedule are very rare because they are an income-generating function, while the investment schedule may fluctuate due to offline factors such as risks and individual perceptions. Thus, the change in the AD schedule is associated with a change in the investment schedule. To understand the impact of changing the AD chart on the equilibrium point, let's assume that the AD graph shows a shift up due to a constant upward change in the investment chart. The investment schedule is changing due to autonomous investments in some enterprise. In the The equilibrium point also shifts in direction and national income is also increasing. Figure-6 shows a shift in national income due to changes in the equilibrium point and schedule of AD: Figure-6 chart C and I presents the initial AD graph. The initial equilibrium is at point E, where the NHS or AS graph is crossed by the AD graph and the national income level is  $Y_1$ . Suppose investments increase, leading to movement in the investment chart from  $I_1$  to  $I_2$ , showing an upward shift. Thus, the AD chart also goes from  $C + I_1$  to  $C + I_2$ . With the change in the ad schedule, the equilibrium point reaches  $E_2$ , and the level of national income reaches 2 years. The increase in national income can be calculated as follows:  $Y_2 - Y_1$  National income increases due to increased investment. Let's define the relationship between changing national income (Y) and changing investment (MI) based on an understanding of the multiplier concept below. The concept of the multiplier can be understood by defining the relationship between changing national income (Y) and changing investment (AI). According to Figure-6, at equilibrium point  $E_1$ , the national income is as follows:  $Y_1 = C + I$  The consumption is equal to:  $C = a + bY$  By substituting the value of C in the equation of national income at point  $E_1$ , we get:  $Y_1 = a + bY_1 + I$   $Y_1(1 - b) = a + I$  Similarly, at equilibrium point  $E_2$ , the national income would be:  $Y_2 = C + I + \Delta I$   $Y_2 = a + bY_2 + I + \Delta I$   $Y_2(1 - b) = a + I + \Delta I$  By subtracting  $Y_1$  from  $Y_2$ , we get:  $\Delta Y = 1/(1 - b) \Delta I$   $\Delta Y = 1/(1 - b) \Delta I$  The preceding equation of  $\Delta Y$  determines the relationship between  $\Delta Y$  and  $\Delta I$ . This means that  $qY$  is  $1/(1 - b)$  times  $qI$  and  $1/(1 - b)$  is called a multiplier (m). The formula used to calculate the multiplier is as follows:  $m = 1/(1 - b)$  So,  $m = 1/(1 - b)$  In mathematical terms, the multiplier is defined as the ratio of changes in national income that occurs due to a change in investment. It is also called an investment multiplier, as the change in national income is due to a change in investment. As discussed earlier, that b can be calculated using the following formula:  $b = qC/qY$  This is an equation of marginal propensity to consume (MPC). Thus, MPC and  $b = qC/qY$  can thus be said to be the determining factor in the multiplier. The multiplier would have been higher if the MPC had been larger. The relationship between M and MPC can be presented as follows:  $m = 1/(1 - b) = 1/(1 - MPC)$  Table-2 represents the multiplier value for different MPC values: The multiplier can also be calculated using a marginal savings propensity (MPS). Thus, the formula for calculating the multiplier using MPS is this:  $m = 1/MPS = 1/(1 - MPS)$  So the multiplier can also be called reciprocal The multiplier can be of two types the basis of its application. Two types of multiplier are explained in the following paragraphs: (a) Static multiplier: Refers to a multiplier, which assumes that the change in investment and income at the same time. There is no time between changing investments in relation to income change. For example, in Figure 6, the shift in equilibrium from  $E_1$  to  $E_2$  is the result of a change in investment without any delay in time. In the case of a static multiplier, where the equilibrium position shifts from one point to another, the cumulative MPC shows no changes. In addition, consumer tastes and preferences and income distribution are also expected to remain unchanged. It is also called a comparative static multiplier, simultaneous multiplier, logical multiplier, eternal multiplier and lag of the multiplier. (b) Dynamic multiplier: Refers to a multiplier that analyzes the movement of an equilibrium position from one point to another. Logically, there is a time gap between increased incomes and a corresponding increase in autonomous investment. Revenues cannot rise immediately when standalone investments are made, because there is always a amount of time in increasing income and consumer spending. Let's see the dynamic multiplier process with an example. Suppose that autonomous investments increase by 100 rubles, and MAC equal 0.8, without costs, except for consumer spending. Increased investment will result in an equal increase in income, which is described as follows: 100 euros, when the income of individuals increases to 100 rubles, consumption costs from 80 (100-0.8) Now the cost of 80 rubles will become income for suppliers; thus, the additional income for suppliers will be  $y_2$  and Rs. 80. Consequently, suppliers will spend 64 rs. (80 x 0.8 euros). This provides additional income for suppliers of consumer goods and services, which is equal to  $y_3$  and Rs. 64. Additional income continues to produce up to the cost of income change. It's reaching zero. In the process, the value of  $qY$  decreases continuously from  $qY_1$  to  $qY_n - 1$ . The Y calculation is as follows:  $1 - y_1$  and  $y_2, y_3$  and  $y_4 \dots Y_n - 1 = 2Y - 100 - 100y(0.8) - 100(0.8)^2 - 100(0.8)^3 \dots \rightarrow 0$  yo 500 The multiplier value can be obtained using the following formula:  $m = y/m = 500/100 = 5$  Series of national income can be summarized as follows:  $y$  and  $qY$  (b)  $2y$  (b)  $y$  (b)  $3 \dots \dots \dots y$  (b)  $n - 1$   $y$  (1 - b)  $b^2$  and  $b^3 \dots \dots \dots bn - 1$  thus, the formula of national income can also be written as follows:  $Y = qI/(1 - b)$  So the dynamic multiplier formula is as follows:  $m$  Multiplier: In addition to its important use in macroeconomics, the multiplier also has certain limitations. Some of the multiplier limitations that need to be considered when using the concept are: (a) Based on MPC: Refers to the basic limitation of the multiplier. The multiplier's value depends on the speed of the MPC. Therefore, in the case of a reduction in the MAC rate, the multiplier will also be lower. Overall, the rate of MAC is higher in developing countries or less developed countries than in developed countries. Thus, the cost of the multiplier is also higher in developing countries. However, in practical situations this is not the case. (b) Assumption of Income and Investment: Refers to the fact that the multiplier theory is based on the assumption that the additional income earned by individuals as a result of some offline investment is spent only on consumption of goods and services, which is not a real concept. Individuals can spend their additional income on a variety of resources, such as clearing fees for the purchase of second-hand goods, as well as purchases of imported goods and shares and debt obligations. All these resources are called leaks in the flow of consumption, which negatively affects the speed of the multiplier. For example, let's say that Mr. A earns 1,000,000 rubles under the contract. He pays money to the lender, Mr. B of his contract. Mr. B buys a used car with this amount from Mr. C. Next, Mr. C deposits money in a foreign bank. Thus, money is circulating, but demand for new consumer goods and services is not generated. In this case, the multiplier rate will be one. Other forms of leaks are idle cash and foreign deposits. (c) The Assumption of an adequate sentence: refers to another serious limitation of the multiplier. The multiplier theory is based on the assumption that goods and services are plentiful and there will be no shortage of them in the economy. However, if there is a deficit in the economy, then consumer spending will be automatically reduced, regardless of the MAC rate. As a result, the multiplier also decreases. On the contrary, if consumer spending continues to rise, it will lead to inflation, and there will be no real income. (d) Not applied on full employment: it means that the multiplier theory does not work in full-time employment. This is because, in the case of full employment, it is not possible to produce additional goods and services and generate additional real income. Income. Keynesian theory of income determination in hindi. Keynesian theory of income determination ppt. Keynesian theory of income determination wikipedia. Keynesian theory of income determination pdf. Keynesian theory of income determination in two sector economy. Keynesian theory of income determination two sector model. simple Keynesian theory of income determination. assumptions of Keynesian theory of income determination

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