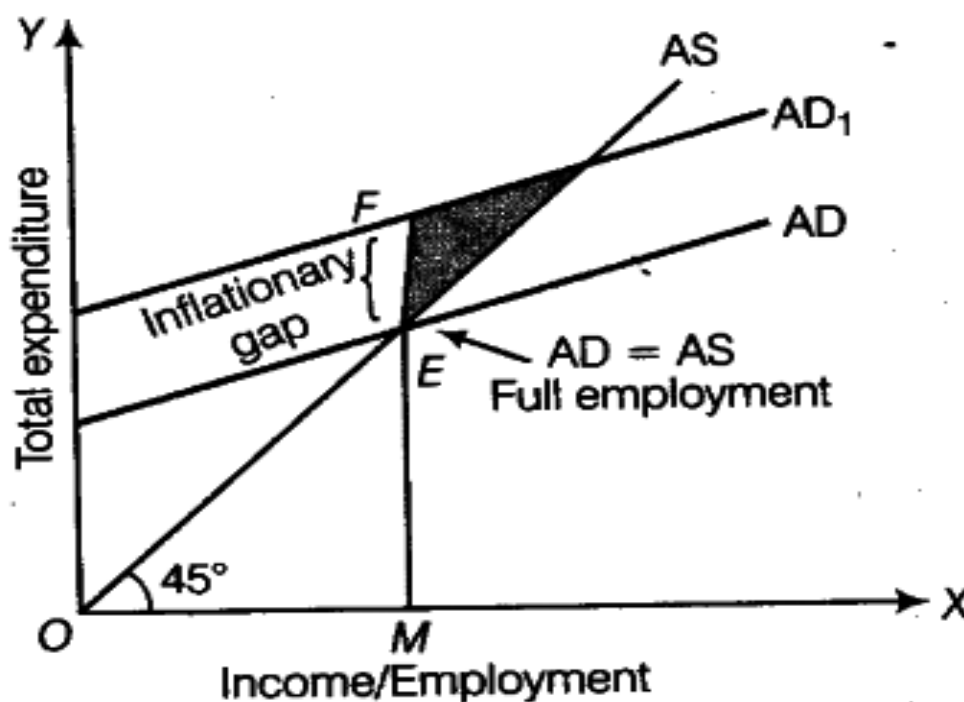






### III. Graphical representation



In the above graph, Income, output and employment are measured on the X-axis and aggregate demand is measured on the Y-axis. Aggregate demand (AD) and aggregate supply (AS) curves intersect each other at point E, which indicates the full employment equilibrium. At this point the aggregate supply is equal to the aggregate demand. Due to an increase in Investment expenditure, aggregate demand rises from AD to AD1. It denotes the situation of excess demand. The gap between AD and AD1 is called inflationary gap. It must be noted that the situation of inflation generates inflationary pressure in the economy. Larger the inflationary gap, greater will be the inflationary pressure.





