Roy Rotheim 14 January 2009

Slide 1 8’ 36”

“A brief summary of the theory of employment to be worked out in the course of the following chapters may, perhaps, help the reader at this stage, even though it may not be fully intelligible....

The outline of our theory can be expressed as follows. When employment increases, aggregate real income is increased. The psychology of the community is such that when aggregate real income is increased aggregate consumption is increased, but not by so much as income. Hence employers would make a loss of the whole if the increased employment were to be devoted to satisfying the increased demand for immediate consumption.

Thus, to justify any given amount of employment there must be an amount of current investment sufficient to absorb the excess of total output over what the community chooses to consume when employment is at the given level. For unless there is this amount of investment, the receipts of the entrepreneurs will be less than is required to induce them to offer the given amount of employment. It follows, therefore, that given what we shall call the community’s propensity to consume, the equilibrium level of employment, *i.e.* the level at which there is no inducement to employers as a whole either to expand or to contract employment, will depend on the amount of current investment.

The amount of current investment will depend, in turn, on what we shall call the inducement to invest; and the inducement to invest will be found to depend on the relation between the schedule of the marginal efficiency of capital and the complex of rates of interest on loans of various maturities and risks. Thus, given the propensity to consume and the rate of new investment, there will be only one level of employment consistent with equilibrium; since any other level will lead to inequality between the aggregate supply price of output as a whole and its aggregate demand price. This level cannot be *greater* than full employment, i.e., the real wage cannot be less than the marginal disutility of labour. But there is no reason in general for expecting it to be *equal* to full employment” (Keynes,1936: 28).

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