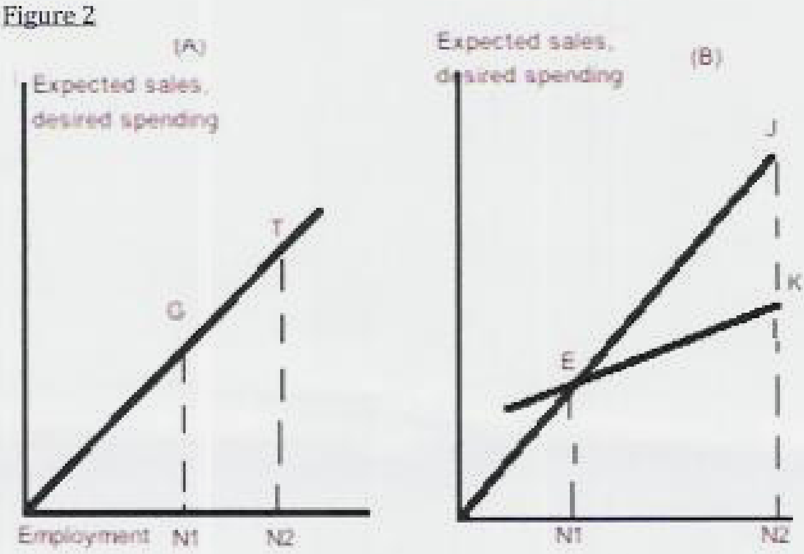
demand level point T at the full employment level of N2. Thus according to Keynes interpretation Say's Law represents no obstacle to full employment as long as there is no obstacle to wage flexibility thus within this model over- production is not feasible. '*Instead of having a unique equilibrium value, is an infinite range of values all equally admissible*'.[1] Firms will infinitely employ labour as long as the marginal productivity of labour is equal to the real wage rate, which tells us that the firms demand for labour is an inverse function of the real wage, the lower the wage the more labour will be employed. In contrast figure 2B presents the distinguishable features of demand and supply functions, which intersect at one particular point the point of 'effective demand' (E) this is consistent with Keynes theory. The equilibrium level of employment is N1, at the full employment level N2 there is a deficiency in effective demand equal to the vertical distance between J and K, hence the output at the full employment level cannot be sold above the cost of production therefore there is over-production.

Figure 2



The failure of effective demand demonstrated in figure 2B demonstrates the apparent contradiction within the classical perspective that demand deficiency is not possible due to constant return to full employment, and the output at this level will be successfully consumed. Keynes further proposes that the level of output is determined by planned aggregate expenditure, which consists of consumption expenditure by households and investment by firms, this can be illustrated with the following equation E=C+I. In the classical model fluctuations in saving and investment are equilibrated by the flexible interest rate. For Keynes it was dependent on the level of income. Investment according to Keynes is dependent on the expected profitability of capital, which he terms as the 'marginal efficiency of capital' thus employment becomes dependent on volatile and unpredictable investment expenditure. This is due to the 'expectations' that entrepreneurs have trying to quantify future demand and cost, which is ultimately unpredictable. Hence given the volatility of expectations driven by 'animal spirits' employment and the level of output also becomes volatile. '*The violent fluctuations in the marginal efficiency of capital form the shocks which shift real aggregate demand, that is the main source of economic fluctuations*'.[2]

In the classical perspective 'demand is equal to supply' money within this perspective is only a medium of exchange it has no utility of in it self it is regarded as a veil covering the underlying real forces of the economy. Within the classical perspective there is a dichotomy between the real

[1] The General Theory (1936:26)

[2] Snowdon et al (1994:65)