

EE212

John Maynard Keynes

1. Keynesian economics was developed by the British economist John Maynard Keynes during the 1930s in an attempt to understand the Great Depression.

2. Keynes advocated for increased government expenditures and lower taxes to stimulate demand and pull the global economy out of the depression.

3. Good aspect of FISCAL POLICY

Idea from Keynes's theory of fiscal stimulus, an injection of government spending eventually leads to added business activity and even more spending. This theory proposes that spending boosts aggregate output and generates more income. Due, to the multiplier one dollar from one person can generate even more and more.

Bad aspect of FISCAL POLICY

Still, Milton Friedman and Murray Rothbard, showed that the Keynesian model misrepresented the relationship between savings, investment, and economic growth. Many economists still believe in multiplier-generated models, although most acknowledge that fiscal stimulus is far less effective than the classical economic model.

4. Good aspect of MONETARY POLICY

The emphasis on direct government intervention in the economy places Keynesian theorists at odds with those who argue for limited government involvement in the markets. Lowering interest rates is one way governments can meaningfully intervene in economic systems, thereby generating active economic demand.

Bad aspect of MONETARY POLICY

Keeping interest rates low is an attempt to stimulate the economic cycle by encouraging businesses and individuals to borrow more money. Lowering interest rates, however, does not always lead directly to economic improvement.

5. Keynesian economics is considered a "demand-side" theory that focuses on changes in the economy over the short run.

6. Keynes and his followers believed individuals should save less and spend more, raising their marginal propensity to consume to effect full employment and economic growth.

7. Alternative theory on saving and economic growth

While savings were strictly linked to income sources by Classical and Post-Keynesian theories, simple partial-equilibrium models explain individual saving decisions in the light of private investment returns and labour-income dynamics.

8. Keynes said this would not encourage people to spend their money, thereby leaving the economy unstimulated and unable to recover and return to a successful state. Instead, he proposed that the government spend more money, which would increase consumer demand in the economy. This would, in turn, lead to an increase in overall economic activity, the natural result of which would be recovery and a reduction in unemployment.

9. Keynesian Economics focuses on using active government policy to manage aggregate demand in order to address or prevent economic recessions.

10. Keynes also criticized the idea of excessive saving, unless it was for a specific purpose such as retirement or education. He saw it as dangerous for the economy because the more money sitting stagnant, the less money in the economy stimulating growth.

11. Prices also do not react quickly, and only gradually change when monetary policy interventions are made. This slow change in prices, then, makes it possible to use money supply as a tool and change interest rates to encourage borrowing and lending.

12. Keynesian theorists believe the business cycle will get disrupted, market growth becomes more unstable, and excessive fluctuated if we are not implementing the monetary intervention. However, lowering the interest rate might not effective because of the liquidity trap.