

Homework

(Deadline: TO BE DECIDED AFTER MID-TERM)

Instructions:

1) Read the following article:

<https://www.investopedia.com/terms/k/keynesianeconomics.asp>

- 2) You are to summarize the article into 10-13 key points (ประเด็นสำคัญ), which are accompanied by brief explanations.
- 3) Your work must be within one and a half pages. One page is preferred.
- 4) Your work has to be HAND-WRITTEN on IPAD or SCANNED PAPER(S).
- 5) **Your key points MUST be about economic theories (not Keynes' biography) and cover the following notions.**
 - a. Keynes' perspective on Great Depression
 - b. Keynes' perspective on the Classical Economics
 - c. Possible solutions to Great Depression
 - d. Pros and cons of monetary policy
 - e. Pros and cons of fiscal policy
 - f. What is Keynesian economics?
 - g. Keynes' perspective on saving and economic growth
 - h. Alternative theory on saving and economic growth (Google!)
- 6) You will be fully awarded 10 marks (10%) for 10 correct and accurate key points. The extra 3 key points are for 3 extra marks in case some of your conclusions are incorrect.

สามคะแนนเป็นคะแนนพิเศษ หากนักเรียนคนไหนสรุปผิดบางข้อจาก 13 ข้อ ก็ยังมีสิทธิ์ได้คะแนนเต็ม
- 7) Submission after deadline will not be accepted.

- Keynes's perspective is originality. He thought that Great Depression was a downturn in the economy because output was low and unemployment remained high. Hence, it could not return to an equilibrium, so businesses and investors will tend to become self-fulfilling leading to a sustained period of depressed economy.
- Keynes argued that even though the wages is low, there is no full employment. The employers will not increase the employees in this situation because they want to reduce capital investment. Furthermore, classical economic could not make people spend more money.
- Keynes advocated that the government should lower taxes and increase expenditures to raise demand, to decrease the unemployment, and to pull the economy back to the equilibrium.
- To prevent the economic depression and achieve the optimum economic performance, the government should influence aggregate demand through activist stabilization and economic intervention policies.
- In favour of monetary policy, it is an important part to restore employment and short-term demand. The government manages money supply and lowers interest rates to reinvigorate the economic system and to stimulate the economic cycle by encouraging consumption and investment spending to borrow more.
- Against monetary policy, the economies do not stabilize themselves very rapidly and require active government intervention to raise demand in short term. Wages, employment, and prices are also slowly respond to the market needs and gradually change due to the monetary policy interventions. And be aware of the zero-bound problem, a liquidity trap, therefore, people will hold cash rather than invest.
- In favour of fiscal policy, the chief components of this policy is the multiplier effect. An injection of government spending leads to an increase in business activity and spending that boost aggregate output and raise income, as a result, the marginal propensity to consume which direct to the multiplier could make the greater GDP due to the flow of income.
- Against fiscal policy, tax increasing can be unpopular and dangerous to apply. The effect is muted when tax savings or government spending is on imports. When government spends more money, the budget deficit takes in, it can continue to widen dangerously.
- Keynesian economics focuses on using government policy to manage aggregate demand to prevent recessionary economy, considered a demand-side theory focuses on changes in economy in short run. He advocated that government should increase expenditures and decrease taxes to stimulate demand and stabilize the economy, and represented a new way of looking at spending, output, and inflation.
- Keynes believed that when people spend their income, the economy will be boosted. He thought that saving worsen the economy because the money does not stimulate in the circular flow, so it will has a marginal propensity to consume and employment, and restore economic growth.
- - In neoclassical economics, economic growth depends on savings. The IS-LM curves yield aggregate demand curve.
- - In classical economics believed that savings is necessary and sufficient for investment, if savings increase, investment increases because the interest rate and economic growth will be in the same way.