

## The Summary

Keynesian economics is sometimes referred to as “depression economics”, as Keynes’s General Theory was written during a time of deep depression not only in his native land of the United Kingdom but worldwide. The famous 1936 book was informed by directly observable economic phenomena arising during the Great depression, which could not be explained by classical economic theory. The Great Depression inspired Keynes to think differently about the nature of the economy. From these theories, he established real-world applications that could have implications for a society in economic crisis.

For example, Keynesian economics disputes the notion held by some economists that lower wages can restore full employment, by arguing that employers will not add employees to produce goods that cannot be sold because demand is weak. Similarly, poor business conditions may cause companies to reduce capital investment, rather than take advantage of lower prices to invest in new plants and equipment. This would also have the effect of reducing overall expenditures and employment.

### Monetary Policy Pros

- Interest Rate Targeting Controls Inflation
- Can Be Implemented Fairly Easily
- Central Banks Are Independent and Politically Neutral
- Weakening the Currency Can Boost Exports

### Monetary Policy Cons

- Effects Have a Time Lag
- Technical Limitations
- Monetary Tools Are General and Affect an Entire Country
- The Risk of Hyperinflation

### Fiscal Policy Pros

- Can Direct Spending To Specific Purposes
- Can Use Taxation to Discourage Negative Externalities
- Short Time Lag

### Fiscal Policy Cons

- May Be Politically Motivated
- Tax Incentives May Be Spent on Imports
- Can Create Budget Deficits

Keynesian economics is an economic theory of total spending in the economy and its effects on output and inflation. Keynesian economics was developed by the British economist John Maynard Keynes during the 1930s in an attempt to understand the Great Depression. Keynesian economics is considered a "demand-side" theory that focuses on changes in the economy over the short run.

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. This was another of Keynes's theories geared toward preventing deep economic depressions.

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. If optimal saving decisions are embedded in a dynamic general equilibrium framework of analysis, however, the parameters of individual saving problems are jointly determined by aggregate savings and investment outcomes, and ultimately by the character of income distribution at the aggregate level. The paper concludes noting formal and substantial similarities between some aspects of earlier theories and recent developments.