

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.

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- 7) Submission after deadline will not be accepted.

Keynesian Economics

- 1 Keynes' perspective on the Great Depression was that he studied the Great Depression and developed his theories based on it.

According to Keynes, during recession, fear can result in a sustained period of unemployment and depressed economic activity.
- 2 Keynes' perspective on the Classical Economics was negative, he criticized classical economic theories.

Classical economic theory states that if aggregate demand decreases, wages and prices would also decrease.

Low inflation means that there will be more capital investments and economic growth. However, Keynes believed that recessions would make the economy weaker and cause aggregate demand to decrease even more.
- 3 Keynes suggested a countercyclical fiscal policy as a possible solution to the Great Depression.

When the economy is bad, the government need to understand deficit spending to cover the loss in investment and improve consumer spending.
- 4 Keynes also suggested that the government should spend more money and reduce tax in order to increase consumer demand. This will also led to more economic activities and less unemployment.
- 5 Keynesian economists believed that fiscal and monetary policies are the main tools to fight unemployment and manage the economy.

During recession, government must use fiscal and monetary policies to improve the economy.
- 6 The pro of the monetary policy is that can use money supply to change interest rates.

Changing interest rates means that borrowing as well as lending can be encouraged.
- 7 Another pro of monetary policy is lowering interest rate encourage consumption and investment spending.

Government can intervene in the economic system through low interest rate to improve the economy.
- 8 The con of the monetary policy is that zero-bound problem must be avoided.

When the interest rate reaches zero, lowering interest rates is not effective and other strategies must be used instead.
- 9 The pro of the fiscal policy is that it can improve the economy by increasing business activities and spending.

When the government injects government spending, it will increase output and income. This means that people will have more money to spend and GDP will increase.
- 10 The con of the fiscal policy is that it misrepresented the relationship between investment, saving and economic growth.

Other economists claimed that the fiscal policy is less effective than other original multiplier models.
- 11 Keynesian economics believes that active government policy can be used to manage aggregate demand to prevent or handle economic recessions.

According to Keynesian economics, government needs to have policies to deal with aggregate demand during economic downfall.
- 12 An alternative theory on savings and economic growth is the neo-classical theory.

Neo-classical theory views that economic growth is based on aggregate supply, including factors like workforce size, inputs, and productivity of the labor.