

At first, there are the economic theory that was reasonable explanation of an economic 'Classical Economics'. They said that the market can adjust themselves back to the market equilibrium by returning of output and price. Unfortunately, during 1930s, great depression which is low number of output and high unemployment had occurred worldwide. It seems to counter this thought. Keynes, economist who think differently about nature of economic, said that "if we wait until the market adjusting themselves in long run, everyone would die. Due to economic not stabilize themselves quickly, it needed governmental intervention to boost economic in short run.". So, he came up with Keynesian economic concept which was another hand of classical theory to explain the nature of economic and recover the economic.

Keynesian economics is an economic theory which occurred during the great depression in 1930s. The theory is about the relationship between aggregate expenditure (AE) and output (Y). He focuses on demand-side theory about short run changes in the economy and supports increased government expenditure and lower taxes to increase demand to overcome the great depression.

He argued that during great depression the investor won't have confident to invest anything new. In worst case, they might lend employment out. Therefore, the economic is stuck in severely recession. He said that the government able to force the market more efficiently to boost the economy. Hence, there are 2 policies that help the boost economic during recession and slow the economic down during expansion. That policies are the solution to solve great depression made by government which are fiscal policy and monetary policy.

Fiscal policy is about government spending and tax. He believes that when government increase its spending or reduce taxes, the aggregate expenditure, demand and output would increase. That would boost the economic. The advantage of this policy is increasing economic growth, reducing unemployment rate and budget deficit. (Extra! Budget deficit is when expenditure exceed revenue and public debt rise. So, the government will use contraction fiscal policy by dropping government purchases and rising tax to raise the revenue and lastly budget deficit would be lower. On the other hand, there are also limitation which is crowding-out effect. This happen when the government increase a huge borrowing to finance the government spending. But a result is not quite close what they expected to be, in addition this may lead to discourage investor to invest due to rises in the interest rate.

Monetary policy is the demand side of economic policy which control money supply and interest rate by an action of central bank to stabilize economic growth. Normally, prices change slowly, so with the policy which use money supply as a tool to change interest rate to encourage people to borrow and lend more. Then, when lower interest rate, people tend to borrow more money and increase their spending. Rising individual

and business expenditure can stimulate the economic. The benefits of the policy are encouraged higher levels with stability of economic, lower inflation rate and boost export. In contrary, there are also having difficulty because there is limitation of the policy which is Liquidity Trap. When central bank has been reducing interest rate to boost the economy for a long time, one day the interest rate would fall to a certain level. At this situation, monetary policy can no longer affect interest rate. The policy becomes ineffective in boosting the economy.

On theories of economic growth and saving, Keynes think that saving caused aggregate output and aggregate expenditure to goes down because money is out of economy and when people save more, it would lead to drop in income. Lastly, there are no change or smaller in overall saving. His theory saving is depended on national income, but investment is indirectly depended on interest rate.

On the other hand, classical economists believe that saving is essential and sufficient condition for securing investment. If saving rise, investment goes up and the following is economic growth. For endogenous economic growth theory, increase saving rate leads to a rise in economic growth through its positive effect on investment and capital accumulation. Saving is endogenously between behavior of households and firms (Singh, 2010). Increasing capital shock would be effective economic growth only in the short-run but no longer in long run (Romer, 2006)