# HW MACRO
# -Keynesian Economics-

- **What is Keynesian economics:** Keynesian economics is an economic theory of total spending in the economy and its effects on output and inflation and argues that the driving force of an economy is aggregate demand
- **Keynes' perspective on Great Depression:** Keynes' perspective on Great Depression session argued that once an economic downturn sets in, the fear that it engenders among businesses and investors will tend to become self-fulfilling and can lead to a sustained period of depressed economic activity and unemployment and rejected the idea that the economy would return to equilibrium.
- **Possible solutions to the Great Depression:** Keyne suggested that the government should spend more money, which would increase consumer demand in the economy and lead to an increase in overall economic activity, the natural result of which would be recovery and a reduction in unemployment.
- **Keynes' perspective on saving and economic growth:** Keynes criticized the idea of excessive saving unless it was for a specific purpose. He saw it as dangerous for the economy because the more money sitting stagnant, the less money in the economy stimulating growth. The economic activity will increase the overall economy. He believed the government was in a better position than market forces when it came to creating a robust economy.
- **An alternative theory on saving and economic growth:** The Solow-Swan model of growth stated that the savings rate did not affect the rate of growth. In the absence of exogenous circumstances, savings would only depress the marginal productivity of capital forcing the economy towards a stationary state.
- **Pros and cons of fiscal policy:** Fiscal policy leads to added business activity and even more spending because spending boosts aggregate output and generates more income. the resulting growth in the gross domestic product could be even greater than the initial. On the other hand, fiscal stimulus is far less effective than the original multiplier model suggests.
- **Pros and cons of monetary policy:** The monetary policy makes it possible to use money supply as a tool and change interest rates to encourage borrowing and lending. Short-term demand increases, restore employment and demand for services, and the new economic activity then feeds continued growth and employment. Keeping interest rates low in an attempt to stimulate the economy. But, Lowering interest rates, however, does not always lead directly to economic improvement because it reduces the incentive to invest rather than simply hold money in cash or close substitutes like short term Treasuries.