

Keynes' perspective on Great Depression

-The Great Depression inspired Keynes to think differently about the nature of the economy. He rejected the idea that the economy would return to a natural state of equilibrium. Instead, he argued that once an economic downturn sets in, for whatever reason, the fear and gloom 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.

Possible solutions to Great Depression

-Keynes advocated a countercyclical fiscal policy in which, during periods of economic woe, the government should undertake deficit spending to make up for the decline in investment and boost consumer spending in order to stabilize aggregate demand. He proposed that the government spend more money, which would increase consumer demand in the economy. This would, in turn, lead to an increase in overall economic activity, the natural result of which would be recovery and a reduction in unemployment.

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

Pros and cons of fiscal policy

- Pros
 - Can Direct Spending To Specific Purposes
 - Can Use Taxation to Discourage Negative Externalities
 - Short Time Lag
- Cons
 - May Be Politically Motivated
 - Tax Incentives May Be Spent on Imports
 - Can Create Budget Deficits

What is Keynesian economics?

-It is an economic theory of total spending in the economy and its effects on output and inflation. It is considered a "demand-side" theory that focuses on changes in the economy over the short run. It focuses on using active government policy to manage aggregate demand in order to address or prevent economic recessions.

Keynes' perspective on saving and economic growth

-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.

Alternative theory on saving and economic growth

-Milton Friedman and Murray Rothbard, showed that the Keynesian model misrepresented the relationship between savings, investment, and economic growth.

What is classical economics?

-Classical economics is a broad term that refers to the dominant school of thought for economics in the 18th and 19th centuries. Classical economic theory helped countries to migrate from monarch rule to capitalistic democracies with self-regulation.

The Rise of Classical Economic Theory

-Classical economists provided the best early attempts at explaining capitalism's inner workings. The earliest classical economists developed theories of value, prices, supply, demand, and distribution.

Classical Economics and the Free Markets

-The theory of classical economics is that free markets will regulate themselves if they are left alone. Markets will find their own level of equilibrium without interference by people or the government.

The difference between classical economics and Keynes

-The differences between Keynesian theory and classical economy theory affect government policies, among other things. One side believes the government should play an active role in controlling the economy, while the other school thinks the economy is better left alone to regulate itself.