

a) Keynes' perspective on Great Depression

Keynes 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.

b) Possible solutions to Great Depression

Keynes advocated a countercyclical fiscal policy in which, during periods of the Great Depression, the government should undertake deficit spending (the government takes on debt while using its spending power to create demand and stimulate the economy) to make up for the decline in investment and boost consumer spending in order to stabilize aggregate demand. Keynes advocated for increased government expenditures and lower taxes to stimulate demand and pull the global economy out of the depression.

c) Pros and cons of monetary policy

Monetary policy refers to the actions taken by a country's central bank to achieve its macroeconomic policy objectives.

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

d) Pros and cons of fiscal policy

Fiscal policy refers to the tax and spending policies of a nation's government. A tight, or restrictive fiscal policy includes raising taxes and cutting back on federal spending. A loose or expansionary fiscal policy is just the opposite and is used to encourage economic growth. Many fiscal policy tools are based on Keynesian economics and hope to boost aggregate demand.

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

e) What is Keynesian economics?

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

f) Keynes' perspective on saving and economic growth

Savings was viewed by Keynes as having an adverse effect on the economy, especially if the savings rate is high or excessive. Because a major factor in the aggregate demand model is consumption, if individuals put money in the bank rather than buying goods or services, GDP will fall. In addition, a decline in consumption leads businesses to produce less and to require fewer workers, which increases unemployment. Businesses are also less willing to invest in new factories.

g) Alternative theory on saving and economic growth

Classical economists believed that saving is a necessary and sufficient condition for securing investment and that the interest rate is the price that equates them. They believed that if savings go up, investment increases, and then economic growth follows.

h) Keynes on Unemployment

Keynes theorized that wages and prices are flexible, and that full employment is not necessarily attainable or optimal. This means that the economy seeks to find a balance between the wage's workers demand and the wages businesses can supply. If the unemployment rate falls, fewer workers are available to businesses looking to expand, which means that workers can demand higher wages.

i) What Is Neoclassical Economics?

Neoclassical economics is a broad theory that focuses on supply and demand as the driving forces behind the production, pricing, and consumption of goods and services. One of the key early assumptions of neoclassical economics is that utility to consumers, not the cost of production, is the most important factor in determining the value of a product or service.

j) What Is Classical Economic?

Before Keynes proposed his economic theory, the main school of economic thought was classical economics. Classical economists asserted that aggregate supply (AS) was the key focus of a market economy, which would mean that as long as individuals and businesses were producing goods for sale, those goods would be bought. Classical economics also argued that a free market would automatically guarantee full employment, meaning that anyone who wanted a job would have one. Classical economists assume that the most important factor in a product's price is its cost of production.

k) The Rise of Classical Economic Theory

Classical economic theory was developed shortly after the birth of western capitalism and the Industrial Revolution. 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. Nearly all rejected government interference with market exchanges preferring a looser market strategy known as "let it be."

l) The Decline of Classical Theory

The classical economics of Adam Smith had drastically evolved and changed by the 1880s and 1890s, but its core remained intact. Keynesian economics advocated for a more controlling role for central governments in economic affairs, which made Keynes popular with British and American politicians. After the Great Depression and World War II, Keynesianism had replaced classical and neoclassical economics as the dominant intellectual paradigm among world governments.

m) What is Classical Growth Theory?

The classical growth theory argues that economic growth will decrease or end because of an increasing population and limited resources. Classical growth theory economists believed that temporary increases in real GDP per person would cause a population explosion that would consequently decrease real GDP.