

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.

Keynes' perspective on Great Depression

- Keynes developed his theories in response to the Great Depression, and was highly critical of classical economic arguments that natural economic forces and incentives would be sufficient to help the economy recover. So, sometimes, Keynesian economics is referred to as depression economics.

What is fiscal policy?

- The use of government revenue collection (taxes) and expenditure (spending) to influence a country's economy.

Pros of fiscal policy

- Direct spending to specific purposes
- Short time lag

Cons of fiscal policy

- Can create budget deficits
- Tax incentives may be spent on imports

What is monetary policy?

- The policy adopted by the monetary authority of a country that controls either the interest rate payable on very short-term borrowing or the money supply, often targeting inflation or the interest rate to ensure price stability and general trust in the currency

Pros of monetary policy

- Interest rate targeting controls inflation
- Can be implemented fairly easily

Cons of monetary policy

- Lowering interest rates does not always lead directly to economic improvement.
- Effects have a time lag

Possible solutions to Great Depression

- This was intended to improve the economy. It cut back taxes, increased government spending and created debt, which was called "Priming the Pump." It creates jobs in an attempt to put people back to work

Keynes' perspective on saving and economic growth

- Keynes and his followers believed individuals should save less and spend more, raising their marginal propensity to consume to effect full employment and economic growth.

Alternative theory on saving and economic growth

- In Classical view, savings and investment are always equal. The classical economists believe that equality between saving and investment is brought by interest rate.

What is the difference between classical and Keynesian?

- The major difference is the role of the government plays in each. Classical economics is essentially free-market economics, which maintains that government involvement in managing the economy should be limited as much as possible. Keynesian economics espouses the view that the government should take an active role in managing the economy, particularly in depression/recession like periods.