

1) What is Keynesian Economics

- The economic theory of total spending in the economy and its effects on output (Y) and inflation.
- This theory created to understanding the Great Depression.

2) Understanding Keynesian Economics

- This represented a new way of looking at spending, output, and inflation.
- This economics argued that lower wages can restore full employment due to employers will not add employees to produce goods that cannot be sold because demand is weak. Plus, poor business conditions may cause companies to reduce capital investment instead of lower prices to invest in new plants and equipment which would have the effect of reducing overall expenditures and employment.

3) How does the theory work?

- Focusing on using active government policy to manage aggregate demand in order to address or prevent economic recessions.
- Fiscal and monetary policy are the primary tools to manage the economy and fight unemployment.
- The concept is to achieve economic performance by influencing aggregate demand is considered as a demand-side and a change in the economy in short run.

4) Keynes' perspective on Great Depression

- Keynes rejected the idea in classical theory arguing that the economy, output and prices, would return to a natural state of equilibrium which seemed to be contradict to the Great Depression.
- Arguing 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.

5) The possible solutions to Great Depression

- Government should undertake deficit spending in order to stabilize aggregate demand, using fiscal policy to make up or boost consumer spending in order to stabilize aggregate demand.

- Owing to preventing deep economic depressions, save less and spend more to raise their marginal propensity to consume to effect full employment and economic growth.

6) The benefits and drawbacks of monetary policy

- **Pros:** The slow change in price then makes it possible to use money supply as a tool and change interest rates to encourage borrowing and lending. Short-term demand increases initiated by interest rate cuts reinvigorate the economic system and restore employment and demand for services which will stimulates the economy.
- **Cons:** This keeping interest rates low is an attempt to stimulate the economic cycle by encouraging businesses and individuals to borrow more money. Hence, when borrowing drives higher, businesses and individuals will often increase their spending. This new spending stimulates the economy which means that lowering interest rates does not always lead directly to economic improvement.

7) Pros and Cons of fiscal policy

- **Pros:** Due to multiplier effect, fiscal stimulus will be an injection of government spending eventually leads to added business activity and even more spending. The spending boost aggregate output and generates more income. If workers are willing to spend their extra income, the resulting growth in the GDP could be even greater than the initial stimulus amount.
- **Cons:** This model falsified the relationship between savings, investment, and economic growth. Plus, fiscal stimulus is far less effective than the original multiplier model suggests.

8) Keynes' perspective on saving and economic growth

- Individuals should save less and spend more, raising their marginal propensity to consume to effect full employment and economic growth.
- He observed that the more money sitting stagnant, the less money in the economy stimulating growth in order to prevent from dangerous situation, Great Depression.

9) Alternative theory on saving and economic growth

- Even though savings were strictly linked to income sources by Classical and Keynesian theories, simple partial-equilibrium models explain individual saving decisions in the light of private investment returns and labor-income dynamics.

10) The policies recommended in Keynesian economics

- Fiscal policy used as the injection in the government spending to stimulate the economy to boost the aggregate output and incomes.
- Monetary policy concentrates on demand-side solutions to recessionary periods. Government can intervene use money supply as a tool by lowering interest rates, thereby, generating active economic demand.