Key points from the article "Keynesian Economics"

- Keynesian economics is an economic theory that was developed by the British economist, John Maynard Keynes, as a modern way of looking at spending, output, and inflation. Throughout the 1930s, this idea came to conceive the Great Depression and advocated increased government spending and reduced taxes to lift the global economy out of the depression. Moreover, it is regarded as a demand-side theory which focuses on short-term economic changes.

- Keynesian economics denies that lower wages will achieve full employment, which means that employers will not hire workers to manufacture products that can not be sold due to poor demand. Furthermore, weak business codifications can result in companies cutting capital spending, rather than using lower prices to invest in new plants and equipment.

- The Great Depression could not be explained in Keynes' perspective by classical economic theory, as it is claimed that output and prices would gradually return to a state of equilibrium. Yet this theory appeared to counter the Great Depression. Production was weak during this period, and unemployment remained high.

- Keynes thought the government was in a stronger position when it came to having a stable economy than market movements. The government should invest more money during the Great Depression to raise consumer demand in the economy. This would result in an increase in overall economic activity and would be a recovery and a diminish in unemployment.

- The advantage of fiscal policy is that they can direct spending on different goals. For instance, increasing government expenditure or lowering taxes to boosts aggregate output and generates more income. Yet fiscal policy's impacts can be seen much quicker than monetary policy.

- The disadvantage of fiscal policy is if the spending is high and the taxes are too low for too long, it may build budget deficits to a dangerous level. However, the relation between saving, investment, and economic growth was misrepresented in this theory.

- The advantage of monetary policy is holding interest rates low in an effort to accelerate the economic cycle by allowing businesses and individuals to borrow more money that will boost their spending.

- The disadvantage of monetary policy is the zero-bound problem might be caused there. When interest rates reach zero, it is less efficient to boost the economy by reducing interest rates as it decreases investment opportunities rather than simply keeping money in cash. The condition has been called a liquidity trap.

- Keynes and his followers believed that individuals should save less and spend more, through their marginal propensity to consume to achieve full employment and economic growth due to the spending of one person is the income of another, which the process continues over and over again.

- Solow Growth Model is an alternative theory on savings and economic growth. The key point of this theory is that savings and population are also helping to increase gross domestic product in the country. Nevertheless, Solow believes the economy will enter a state called Steady State when the country accumulates capital at a certain point. Similarly, a large population represents a large labor force in the economy which helps contribute to the gross domestic product growth. This argument is precisely the opposite of what Keynes is saying about savings.

Tanwarat Ruangsuvitkul 6204641085