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a) Keynes' perspective on Great Depression

Keynes stated that the economy would not return to a natural state of equilibrium but 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 solution 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 (AE).

c) Pros and cons of monetary policy

One of the pros of monetary policy is generating active economic demand by having the government lower its interest rates. Keeping interest rates low is an attempt to stimulate the economic cycle by encouraging businesses and individuals to borrow more money. When borrowing is encouraged, businesses and individuals often increase their spending. This new spending stimulates the economy. According to monetary policy, the government will lower the interest rate,however, when the interest rate is approaching zero, stimulating the economy by lowering interest rates becomes less effective because it reduces the incentive to invest rather than simply hold money in cash or close substitutes like short term Treasuries. Interest rate manipulation may no longer be enough to generate new economic activity if it cannot spur investment, and the attempt at generating economic recovery may stall completely. This is a type of liquidity trap.

d) Pros and cons of fiscal policy

One of the pros of Fiscal policy is increasing business activity and even more spending by injecting government spending. This theory proposes that spending boosts aggregate output and generates more income. Moreover, with the money multiplier concept of spending from one consumer becomes income for a business that then spends on equipment, worker wages, energy, materials, purchased services, taxes and investor returns. That worker's income can then be spent and the cycle continues.Hence, this will increase the country's GDP as a whole.

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 was used to refer to the concept that optimal economic performance could be achieved and economic slump prevented by influencing aggregate demand through activist stabilization and economic intervention policies by the government.

f) 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. In this way, one dollar spent in fiscal stimulus eventually creates more than one dollar in growth.

g) Alternative theory on saving and economic growth

The studies of Harrod and Domar in 1939 and 1946 where economic growth was assumed to be determined mostly by the equilibrium path for an economy. Their model focused on the limited role of government in the economy and the role of savings as the main determinant of investment. They assumed that interest rates moved to an equilibrium level over time and then remained unchanged.