

## EE212 Homework

### a. Keynes' perspective on Great Depression.

By observing this phenomena, he rejected the idea of classical economic theory that the economy would return its output and prices to a natural state of equilibrium by self-adjusting.

### b. Possible solutions to Great Depression

A countercyclical fiscal policy. During economic woe, the government should increase its spending to make up for the decline in investment and boost consumer spending in order to stabilize aggregate demand.

### c. Pros and cons of monetary policy

- Pros : Lowering interest rate reinvigorate the economic system by encouraging businesses and individuals to borrow more money and increase their spending.
- Cons : Lowering interest rate until it approaches zero reduces the people's incentives to invest rather than hold money in cash or close substitutes. Hence, the policy become less effective.

### d. Pros and cons of fiscal policy

- Pros : An injection of government spending leads to added business activities boosting aggregate output and generating more income. With the multiplier effect, GDP growth could be greater than the initial stimulus amount.
- Cons : The Keynesian model misrepresented the relationship between savings, investment, and economic growth. In addition, fiscal stimulus is far less effective than the original multiplier model suggests.

### e. What is Keynesian Economics?

An economic theory of total spending in the economy and its effect on output and inflation. To prevent economic slumps, influencing aggregate demand through activist stabilization and economic intervention policies by the government is needed.

### f. Keynes' perspective on saving and economic growth

Excessive saving is dangerous for the economy because the more money sitting stagnant, the less money in the economy stimulating growth.

### g. Alternative theory on saving and economic growth : " Harrod-Domar model"

It is a Keynesian model of economic growth. The economy growth rate depends on level of saving and Capital-output ratio. The model implies that economic growth depends on policies to increase investment, by increasing saving which enables greater investment in capital stock and growth will become more self-sustaining.

This model based on the argue that developing countries low rates of economic growth and development are linked to low saving rates.