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A.Keynes' perspective on Great Depression

- Keynes rejected the idea that the economy would return to a natural state of equilibrium but the Great Depression seemed to counter this theory because during the Great Depression output was low and unemployment remained high during this time.
- Keynes argued about the Great Depression that natural economic forces and incentives would be sufficient to help the economy recover.
- Keynes said that when the government cut welfare spending and raised taxes his would not encourage people to spend their money .

B. Possible solutions to Great Depression

- He proposed that the government should spend more money lead to an increase in overall economic activity . the natural result of which would be reduction in unemployment.
- During the Great Depression , the government should undertake deficit 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

- The intervention of government in economic processes is an important part of the Keynesian to lower unemployment and low economic demand .
- Lowering interest rates is one way governments can intervene in economic systems, thereby generating active economic demand.
- Keeping interest rates low is an attempt to 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.

Cons

- Keynesian theorists argue that economies , wages , employment and prices do not stabilize themselves very quickly and require active intervention that boosts short-term demand in the economy.
- The monetary cycle is disrupted and market growth becomes more unstable and prone to excessive

D.Pros and Cons of Fiscal policy

Pros

- This theory proposes that spending boosts aggregate output and generates more income.
- In this theory, one dollar spent in fiscal stimulus eventually creates more than one dollar in growth.

Cons

- This theory showed that the Keynesian model misrepresented the relationship between savings, investment, and economic growth.

E. What is Keynesian economics?

- Keynesian economics is considered a "demand-side" theory that focuses on changes in the economy over the short run.
- Keynesian Economics focuses on using active government policy to manage aggregate demand in order to address or prevent economic recessions.
- Activist fiscal and monetary policy are the primary tools recommended by Keynesian economists to manage the economy and fight unemployment.
- Keynesian economics represented a new way of looking at spending, output, and inflation.

F. Keynes' perspective on saving and economic growth

- Keynes also criticized the idea of excessive saving. He saw it as dangerous for the economy because the more money people save , the less money in the economy stimulating growth.
- Spending from one consumer becomes income for another worker. 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.

G. Alternative theory on saving and economic growth

- The parameters of individual saving problems are jointly determined by aggregate savings and investment outcomes, and ultimately by the character of income distribution at the aggregate level.
- Neoclassical economic models are based on the assumption that investment is financed from household savings. Accordingly, capital accumulation will be maximized by policies aimed at increasing household savings rates and capital imports. These models also predict that capital should flow from rich to poor countries, attracted by higher rates of return .