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Economic Methodology in the Face of Uncertainty: The Modelling Methods of Keynes and the Post-Keynesians

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A simplified explanation of Keynesian economics - role of fiscal policy/government borrowing in overcoming recessions. Quotes diagrams and examples of Keynesian economics in action. What Keynesian economic is not. Keynes did not advocate a Socialist state, where government-controlled the means of production. Keynes did not advocate allowing higher inflation. During periods of growth, Keynes argued inflation should be kept under control. The modelling of national output to money, government budget and business expectations. The General Theory of Money (1936). Keynes' great work "The General Theory of Money" written against the backdrop of the Great Depression. In 'Keynesian' Economics we study models structurally similar to and based on Keynes' conceptual framework. Economics of Keynes-primarily his 'General Theory", is the foundation on which Keynesian economics has been constructed. Following the publication of his book, economists went through it line by line, accepting, correcting and rejecting. What they have built on the foundation that remained is a massive structure known as Keynesian economics. In Keynes' Keynesian economics says government spending to boost demand is the best way to jumpstart growth. But too much deficit spending creates debt. In the 1970s, rational expectations theorists argued against the Keynesian theory. They said that taxpayers would anticipate the debt caused by deficit spending. Consumers would save today to pay off future debt. Deficit spending would spur savings, not increase demand or economic growth. The rational expectations theory inspired the New Keynesians. They said that monetary policy is more potent than fiscal policy. If done right, expansionary monetary policy would negate the need for deficit spending. "Economic Methodology in the Face of Uncertainty: the Modeling Methods of Keynes and the Post-Keynesians." Economic Journal 86 (June): 209–225. Krugman, P. 1999. On Keynesian Economics and the Economics of Keynes. Oxford: Oxford University Press. Leijonhufvud, A. 1981. Keynes's income-expenditure model. Recall that real GDP can be decomposed into four component parts: aggregate expenditures on consumption, investment, government, and net exports. The income-expenditure model considers the relationship between these expenditures and current real national income. Aggregate expenditures on investment, I, government, G, and net exports, NX, are typically regarded as autonomous or independent of current income. The Keynesian theory of the determination of equilibrium output and prices makes use of both the income-expenditure model and the aggregate demand-aggregate supply model, as shown in Figure . Suppose that the economy is initially at the natural level of real GDP that corresponds to Y 1 in Figure .