

## MACROECONOMICS AT WORK EXERCISE

### THE KEYNESIAN SCHOOL OF THOUGHT

**REFERENCE:** ‘Where have all the Keynesians gone?’ (by Robert Kuttner), *BusinessWeek*, February 3, 2003, p. 30.

**CHAPTER RELEVANT TO THIS EXERCISE:** Chapter 18.

### OVERVIEW

John Maynard Keynes was a British economist who in the 1930s put forward a body of ideas relating to macroeconomics that has become known generally as ‘Keynesian economics’ (see pp. 403–5). While Keynesianism was the dominant school of economic thought in the post-war decades a number of alternative schools of thought emerged in the later decades of the twentieth century (p. 404). This article focuses on the contemporary situation in the US and discusses the conclusions, or ‘policy recommendations’ associated with some of the alternatives. It argues that the policies associated with Keynesianism (i.e. running deficits and increasing government expenditure) and *not* making tax cuts (in the belief that the cuts will generate increased economic activity and hence tax revenue) may well be the most appropriate policies for addressing the present problems of the US economy.

### QUESTIONS

1. Summarise the essential ideas underlying Keynesian economics.
2. Explain the differences of opinion relating to the consequences of government deficits for interest rates. What is meant by the notion of ‘crowding out’?
3. How do the ideas and the recommendations of advocates of ‘supply-side economics’ differ? In what way does current policy reflect the influence of this school of thought?
4. What is the Keynesian response to this?
5. Explain the comment made in the article that ‘We are at precisely the phase of the business cycle when large deficits are needed.’