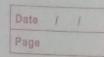
- Saving is a direct function of the interest rates.
- Interest rate is the measure of the remard for the saving. The higher interest rate the greater will be the volume of savings.
- · With the interest rate as the price of capital goods, the lower the interest rate the greater will be the volume of investment.
- Interest rate is determined by the intersection of the savings and is investment function,

KEYNESIAN ECONOMICS

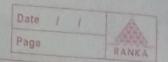
- Keynesian Economics developed during and cafter the Great Depression from the ideas presented by J.M. Keynes in his 1936 book, The General Theory of Employment, Interest
- Great depression It is a state of economic fluctuations which involves deep recession. There was large scale unemployment in the economy, the GIDP was falling etc.





- the major reason of the crisis was the deficiency of demand given supply i.e. there was general overproduction leading to unemployment, which lead to a vicious cycle.
- Reynesian Economics came up as a repudiation to the aggregate supplyfocused Classical Economics that preceded his works.
- 4t applies to short run.
- · He argues that output is strongly influenced by aggregate demand.
- of the economy; instead, it is influenced behaves ervatically, affecting production, employment, and inflation.
 - The point where aggregate demand becomes equal to aggregate supply, it is the effective demand.
 - · Total employment will depend on total demand & decrease in demand will result in unemployment.

- the effective demand can become equal to the aggregate supply but it cannot be full employment eq. I i.e. if saving investment, then it will not be full employment eq.
- idn economy can attain eq. income into necessabily at full employment level. The economy can attain eq. income at leve than full employment level.
- full employment eg cannot be attained and maintained automatically.
- Market may not be perfectly competitive and there can be money mage rigidity.
- Alc to Keynes, there are peroblems cropping up in the economy in the short run & they have to be adversed in the short run only.
- Income should become equal to expenditure Supply should become equal to demand.
- In economy can attain eq. income, when sum total of demand becomes equal to sum total of supply.
- e if we consider consumption & investment demand, then Y = C+I.



- * Psychological Law of Consumption: The consumption Function.
- Men are disposed, as a rule, and on the average to increase their consumption as their income increases but not by as much as the increase in their income.
- In other words "as income increases consumption increases but not by as much as the increase in comminincome".
- Keynes recognized the role of subjective and objective factors including interest rate and wealth influence the level of consumption expenditure.
- But he argued it is the survient level of income on which the consumption spending of an individual and the society depends.
- · Consumption is a function of the surveent income Aggregate consumption is an increasing function of the income.
- Mith the suse in income, a past of income will always be saved: the increase in as the increase in income.

- · People develop the tendency to save
- Here, the income referred is the absolute income of one indivival is independent of the absolute income of other.
- · Here disposable personal income is considered.
- Disposable personal income = Pensonal income taxes.
- Just factore that affect consumption? Subjective factore: Not measurable directly. Objective factors: Interest rate, wealth.
- A/c to classical theory, consumption is the decreasing func of interest rate i.e. saving, investment & consumption, all are func of interest rate,
- And as saving is increasing with rise in rate of interest then consumption must decrease with rise in rate of interest as because as saving increases, income left for spending on consumer goods will decrease. Consumption must be a decreasing funct of interest rate as decreasing funct of interest rate





• A/c to Keynes, current level of income is the major factor that determines the consumption. Higher is the income, higher is the income, higher is the consumption and vice - versa.

* Consumption Function

The Keynesian consumption func' is expressed

as

V=C+C (Accord) Y=C+S. (Income)

· Consumption is a stable funcⁿ of current disposable income

C = a + b Y b > 0, 0 < b < 1

vhere C = lonsumption

Y = Sisposable Income.

a = Autonomous consumption
b = MPC

- · Consumption func' is a linear func' with positive intercept.
- · a + Consumption at 0 level of income.

• b = MPC• Marginal propensity to consume $(MPC = \Delta C)$ ΔY

varies between zero and one is constant

MPC is the slope of consumption function is e change in consumption resulting from one unit change in income.

* Hrace Conjectures

Marginal propensity to consume (MPC=DC/D) varies between zero and one and is constant.

o < MPC < 1.

i e slope is b/w 0 & 1.

If MPC = 0, then the whole income is saved, nothing is spent to consume.

goods.

• If MPC=1, it implies that entire income is consumed, nothing is saved.

'Neither of them true when income rises, a part of it is saved to the rest is consumed.'

o < MPC < 1.

• 4 b is constant, then the relation b/w consumption & income is linear but even if b is not constant the relation b/w C & Y is nearly linear especially in the short own.

in income, I super will be consumed by super will be consumed