Keynes' early interest in economics was due in large part to his father, John Neville Keynes, was an economics lecturer at Cambridge university. His mother, one of Cambridge's first female graduates, was very active in charitable work for the less privileged.

Born into a middle class family, he received scholarships to the two of the most elite schools in England, Eton college and cambridge university, where he earned an undergraduate degree in mathematics in 1904. He excelled at mathematics and he had almost no formal training in economics.

John Maynard Keynes was best known as the founder of keynesian economics and the father of modern macroeconomics. One of the hallmarks of Keynesian economics is the idea that governments should actively try to influence the course of economics, especially by increasing spending to stimulate demand in the face of recession.

Keynes' father was an advocate of laissez -faire economics,an economic philosophy of free market capitalism that opposes government intervention. Keynes himself was a conventional believer in the principles of the free market.

However, after the 1929 stock market crash triggered the Great Depression, Keynes came to believe that unrestricted free market capitalism was essentially flawed and needed to be reformulated, not only to function better in its own right but also to outperform competitive systems like communism.

WHAT IS KEYNESIAN ECONOMICS?

The theories of John Maynard Keynes, known as Keynesian economics, center around the idea that governments should play an active role in their countries' economies, instead of just letting the free market reign. Specifically, Keynes advocated federal spending to mitigate downturns in business cycles.

The most basic principle of Keynesian economics is that demand—not supply—is the driving force of an economy. At the time, conventional economic wisdom held the opposite view: that supply creates demand. Because aggregate demand—the total spending for and consumption of goods and services by the private sector and the government—drives supply, total spending determines all economic outcomes, from the production of goods to the employment rate.

Another basic principle of Keynesian economics is that the best way to pull an economy out of a recession is for the government to increase demand by infusing the economy with capital. In short, consumption (spending) is the key to economic recovery.

These two principles are the basis of Keynes' belief that demand is so important that, even if a government has to go into debt to spend, it should do so. According to Keynes, the government boosting the economy in this way will stimulate consumer demand, which in turn spurs production and ensures full employment.

Here are some of Keynes's key contributions:

Keynesian Economics: Keynes is best known for his development of Keynesian economics, which challenged classical economic theories prevalent at the time. He argued that aggregate demand, rather than supply, is the primary driving force behind economic fluctuations. Keynes emphasized the importance of government intervention, particularly through fiscal policy, to stabilize the economy during periods of recession or depression.

Aggregate Demand and Consumption: Keynes introduced the concept of aggregate demand, which refers to the total spending on goods and services in an economy. He argued that changes in aggregate demand, particularly changes in consumption spending, can have a significant impact on overall economic activity. His work highlighted the role of psychological factors and animal spirits in influencing consumer behavior.

The Multiplier Effect: Keynes developed the concept of the multiplier effect, which suggests that an initial increase in spending can lead to a larger increase in overall economic output. According to Keynes, when households or the government increase their spending, it creates a chain reaction of increased income and further spending, thereby stimulating economic growth.

Liquidity Preference Theory: Keynes introduced the liquidity preference theory to explain the role of interest rates in determining the demand for money. He argued that individuals and businesses have a preference for holding money as a form of liquidity, and their willingness to hold money is influenced by the prevailing interest rates. This theory laid the foundation for understanding the relationship between interest rates, monetary policy, and investment decisions.

Active Government Intervention: Keynes advocated for active government intervention to manage aggregate demand and stabilize the economy. He argued that during periods of economic downturn, governments should increase public spending, lower taxes, and implement other fiscal measures to stimulate demand and create employment. This approach became known as "countercyclical fiscal policy."

Critique of Say's Law: Keynes challenged Say's Law, which states that supply creates its own demand. He argued that insufficient aggregate demand could lead to a situation of persistent unemployment, which cannot be resolved through market mechanisms alone. According to Keynes, there can be situations of "effective demand failure" that require government intervention to restore economic equilibrium.

Keynes's ideas had a significant impact on economic policy and shaped the development of macroeconomic theory in the decades following the Great Depression. His work laid the foundation for the expansion of government intervention in the economy, particularly during periods of economic instability.

REFERENCE

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