Lecture 7 - The Labor Market and Unemployment

## UCLA - Econ 102 - Fall 2018

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October 22, 2018

The General Theory of Employment, Interest and Money

I have called this book the General Theory of Employment, Interest and Money, placing the emphasis on the prefix general. The object of such a title is to contrast the character of my arguments and conclusions with those of the classical theory of the subject, upon which I was brought up and which dominates the economic thought, both practical and theoretical, of the governing and academic classes of this generation, as it has for a hundred years past. I shall argue that the postulates of the classical theory are applicable to a special case only and not to the general case, the situation which it assumes being a limiting point of the possible positions of equilibrium. Moreover, the characteristics of the special case assumed by the classical theory happen not to be those of the economic society in which we actually live, with the result that its teaching is misleading and disastrous if we attempt to apply it to the facts of experience.

The Marginal Propensity to Consume

Our normal psychological law that, when the real income of the community increases or decreases, its consumption will increase or decrease but not so fast, can, therefore, be translated - not, indeed, with absolute accuracy but subject to qualifications which are obvious and can easily be stated in a formally complete fashion into the propositions that ΔC_w and ΔY_w have the same sign, but $\Delta Y_w > \Delta C_w$, where C_w is the consumption in terms of wage-units. This is merely a repetition of the proposition already established in Chapter 3 above. Let us define, then, dC_w/dY_w as the marginal propensity to consume.
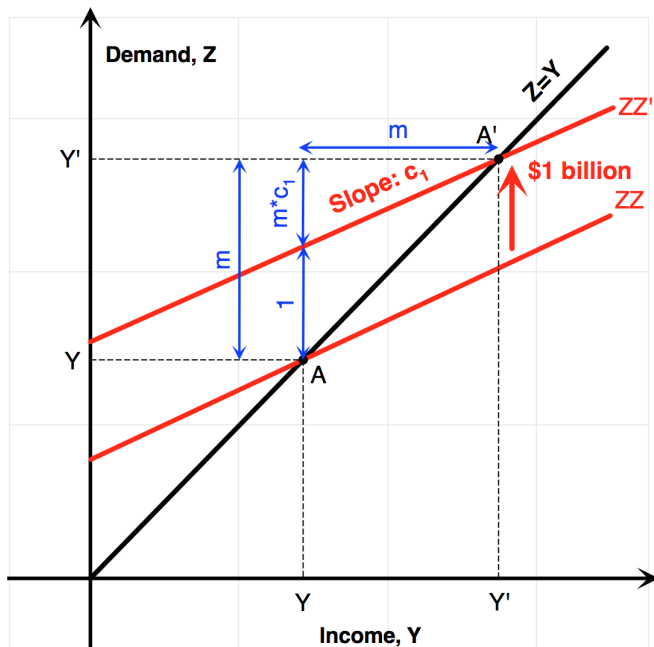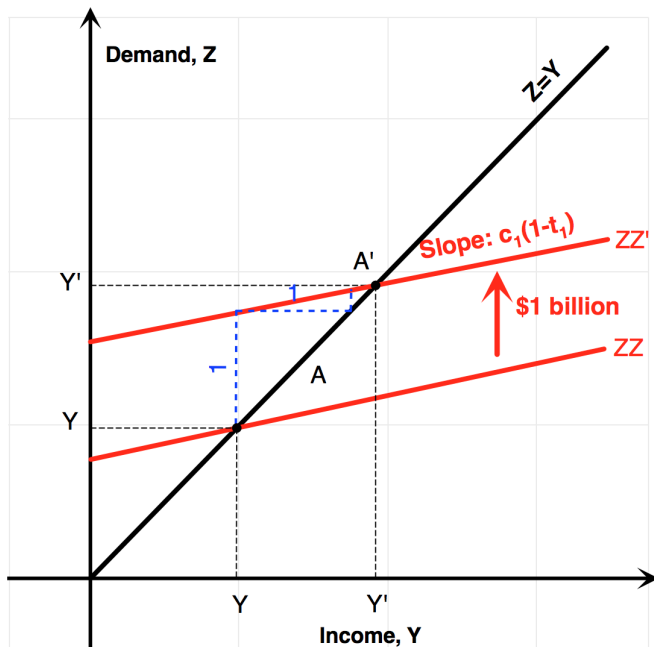
Goods Market Model
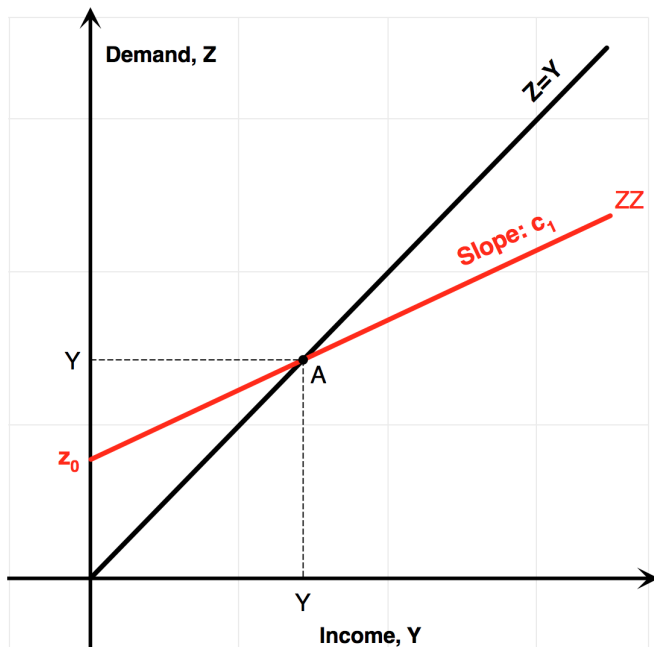
Simple Keynesian Cross: Graphical Interpretation 1
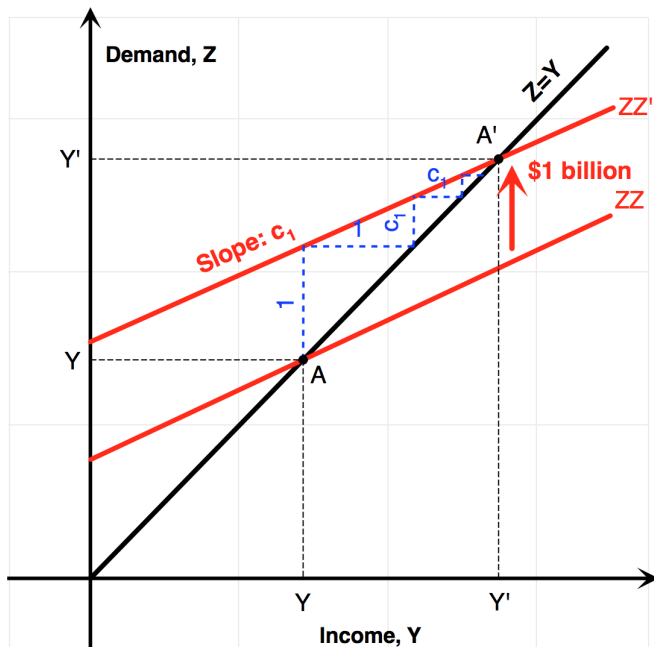
Simple Keynesian Cross: Graphical Interpretation 2

Automatic Stabilizers

Accelerator Effect of Investment