The difference between classical and keynesian economics essay sample

Economics, Macroeconomics

The differences between classical and Keynesian economics are many, but they can be categorized into a few key areas. In general, classical economists would like to see the government stay out of the economy, and try to influence it as little as possible. Keynesian economists, who follow the philosophy of famous economist John Maynard Keynes, by contrast, do not strongly advocate for a position. Those that follow this policy generally believe in strong fiscal policy, and a central banking system that can help to improve national economies. i. One of the areas of difference deals with monetary policy. The classical economists hold to a belief that governments should not influence economies, or pursue a " hands-off" policy, often referred to by the French term, laissez-faire. The Keynesian economists believe that demand is very much influenced by government decisions, both at the federal level and lower levels. In other words, Keynesians believe governments do and should influence the business cycle.

Another big difference between classical and Keynesian economics deals with the outlook each one has concerning the future. Classical economists tend to be more focused on long-term results. Keynesians, on the other hand, tend to be focused on shorter-term problems that they believe may need immediate attention. Those subscribing to the Keynesian philosophy tend to believe that short-term problems are not easily correctable, and will therefore influence the long-term outlook. iii. Inflation and unemployment are also big differences between the two. Keynesians tend to be more concerned with unemployment than inflation. Classical economists, while concerned about unemployment to a certain extent, tend to be more concerned with inflationary pressures, believing inflation can be a bigger danger to the economy over the long term. iv. Pricing is another difference between the theories. Keynesian economists believe that pricing is basically rigid, and that those responsible for setting prices do not have a big range from which to choose.

Therefore, shortages and surpluses result periodically as consumers change habits in the wake of rigid prices. Classical economists believe there is more flexibility regarding pricing, and that shortages and surpluses can be easily corrected. In short, the major difference is how the two schools of thought view the interaction of the government and the economy. Classical economists do not have much faith in the government to set positive trends, and therefore believe that government influence in the marketplace is usually bad. Keynesians believe that the marketplace likely will not make corrections by itself in an efficient manner. That causes the need for government intervention to help direct the economy. John Maynard Keynes, 1st Baron Keynes of Tilton (5 June 1883 – 21 April 1946) was a British economist whose ideas, known as Keynesian economics, had a major impact on modern economic and political theory and on many governments' fiscal policies.

References:

Adam Smith (5 June 1723 OS (16 June 1723 NS) – 17 July 1790) was a Scottish moral philosopher and a pioneer of political economy. One of the key figures of the Scottish Enlightenment,[1] Smith is best known for two

classic works: The Theory of Moral Sentiments (1759), and An Inquiry into the Nature and Causes of the Wealth of Nations (1776).