

Relevance and limitations of the keynesian consumption function essay samples

[Finance](#), [Investment](#)



\n[[toc title="Table of Contents"](#)]\n

\n \t

1. [Relevance](#) \n \t
2. [Limitations](#) \n \t
3. [BIBLOGRAPHY](#) \n

\n[/toc]\n \n

Relevance

The Consumption function's stability stresses the importance of investment in the Keynesian theory of employment and income in the short run. It contradicts Say's law with proof that consumption expenditure raises proportionately less than income increase; this results in a saving gap between income and consumption. The consumption function enabled provision of an explanation of the trade cycle's difficulties (Ambrosi, 2007).

The consumption function is fundamental in the Keynesian Theory of Investment multiplier and explaining the income propagation process in Keynes's theory of income and employment (D'Orlando & Sanfilippo, 2010).

The marginal propensity to consume (the MPC) concept is relevant as it brings out the importance of investment demand for determination of income and employment level in a capitalist economy. From consumption function's concept, we explain the reason as to why a tendency for marginal efficiency of capital to decline exists. The MPC being positive but less than a unity is more relevant practically and analytically (Murota & Ono, 2010).

Limitations

The limitation of Keynes' consumption function is that his assumption that marginal propensity to consume does not change is false as evidenced by Milton Friedman. The actual income use instead of the partially expected refutes the theory. Long-term data provided different results in comparison with the short-term data. The more the data became long term, the autonomous constant reduced to zero while the MPC shifted to one (Streissler, 2011). The analysis of MPC is more dominant in the short run than the APC analysis in the end. Invalidating Say's law is also an implication of Keynes' consumption function rejecting the fact that supply creates its own demand. Increase in investment as brought out in Keynes' Psychological law reduces on unemployment, which is of essence in an economy (Wahid, 2000).

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