Financial crisis and recovery

Finance

Recession & Keynesian

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Discussion

Question 1

In order to counter the challenges identified during the depression of 1929, the US government undertook measures to bring change in its economic system, which were majorly focused on the income disbursement. The underlying assumption of such measures was that growth in income paid out would encourage the spending power of the individuals and thus minimize the impact caused by the augmenting inflationary rates (Kuznets, “ National Income, 1929-1932”). To be precise, it helped people to spend more money. As a result of higher spending, the US had significantly expanded the economy to be much longer and stronger than before. However, it can be argued that the structural change in the US economy did not influence the recessionary periods to be shorter and milder (Tseng, “ Follow Canada? Only at Your Own Risk”) For instance, the US economy had to witness eleven recessionary instances since the great depression. Consequently, the average GDP growth for the ten recessionary instances until 2001 was recorded as -0. 7% which signifies that the economic recession in the US was not at all mild. However, the records depict that the longest recession was witnessed by the US in 1973 and 2007 which continued for two years. This signifies that even though the US economic recession were shorter, the frequency of such instances had increased substantially (Federal Reserve Bank of Atlanta, “ The Financial Crisis and Recovery: Why so Slow?”).

Question 2

According to Keynesian theory, when the spending of an economy increases, the earning of people also increases. The basis of the theory is that whenever an individual spends a portion of his/her earning, it is likely to support the earning of other individuals (Greiner, “ Models of Economic Growth”). This cycle of earning and spending can enable an economy to sustain its expansion. In response to the reason for slow growth of economy according to Keynesian theory, it can be stated that after the recession of 2007, the banks and the financial institutions had faced significant problems which had interrupted the flow of credit. In order to deal with economic recession, the financial regulations in different nations has become much tighter and stricter than before, resulting in low access to finance. This change in financial regulations has impacted the spending activities of people and consequently resulted in slow growth of economy.

Works Cited

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