Economic depression essay examples

Business, Marketing

According to the Keynesian theory of recession, economic depression occurs as a result of hoarding of money by key players, like entrepreneurs and consumers in the economy as a result of fear of projected economic hardships. Keynesian emphasized that, there can be no depression as long as there is constant spending even if it a period of depression. Constant spending ensures a constant flow of income which encourages people to spend. Keynesian encouraged the United States government that whenever people tended to hoard money, it was a principle role of the government to initiate spending especially by imposing heavy bills on consumers (Alan 115). This strategy would compel people to develop the confidence to spend with no fear of succumbing to economic hardships. Therefore there would be no likelihood of unemployment as businesses would run as usual. It was only this strategy that would save the country from economic depression.

According to the Australian explanation of economic depression, imbalances in savings and investments are caused by extensive operation on credit. Credit creation leads to very low interests rates which as a result, encourage more borrowing. To counter the effects of excessive borrowing, the government invests large amounts of borrowed money. The government sets money for investments but just when the platform is ready, they are unable to sustain these investments. This takes them back to the cycle of borrowing and more money which leads to inflation as a result of devaluation of currency.

In the above given case, the United States economy is suffering a protracted recession. Protracted recession occurs as a result of excessive borrowing which as a result leads to increased annual deficits. Assuming that there will

be minimal rate in the change in prices in the products driving the economy, like fuel for instance and subsistence products, a change in banking policies which govern spending and borrowing rates should be precisely evaluated.

Treasury bonds are given out by the government as guarantees on borrowed loans. A demand on more loans by the government implies an excessive borrowing. To increase sufficient money in the flow of income, the government buys back its bonds. This is normally the best strategy during recession. On the other hand, the government, releases bonds to reduce the rate of inflation.

A truncation of government spending on borrowed money increases interest rates, which as a result increases savings and provides enough money for investments. Due to balanced flow of income, consumers and businesses develop a positive trend in their spending rates. Potential investors invest without the fear of losing their savings. Similarly, employees are likely to devote their salaries effectively into subsistence and capital pending without the fear of losing employment. As a result of positive investments, there is a likelihood of increase in gross domestic product in the country. This is an implication that entrepreneurs and businesses enhance capital production, i. e. production of more valuable goods. Quality is the most likely effect as there would be sufficient income and surplus which are necessary for investment.

Movement of interests refers to the variation in the interests rates by national banks in major countries. Holding, interests is impractical because, market forces are dynamic which calls for a need to change these rates to

ensure market equilibrium. Market control cannot be achieved without changing interest rate. Movement of interest rates is basically dependent on the major investments especially in the private sector. Such investments imply that there is a sufficient flow of income in the market. This in effect results to more returns to the government from gross domestic products from capital production in the market. There is also a constant market for majority people in the country which as a result, creates money that sustains the circular flow. Better economic conditions are the environment through which the private sector is sustained. A logical degree of confidence is necessary for investors to release all their savings for investment. Other factors that sustain private businesses are government protection, subsidies and a considerable taxation rate that assures businesses of favorable returns.

However, some conditions are likely to crowd out private investors out of business. These are normally imbalances in the economy. A good example is inflation or inconsiderable increase in prices of basic input products like fuel. Most industries use fossil fuels for bulk production. Inconsistent increase in prices basic inputs negatively affects annual predictions of any firm’s budget as well as returns. Other factors involve increase in government taxation. Increase in taxation rate phases out incompetent business organizations. Additionally protracted recession reduces returns i. e. sales which in effect lead to stagnation of business production or prolonged loss due to inadequate sales.

Works cited:

Alan Blinder, Keynesian Economics, in the Concise Encyclopedia of Economics, 2nd ed., ed. David Henderson (Indianapolis: Liberty Fund Inc., 2007),

Paul Krugman, Why We Haven't Had a Recession (So Far). The New York Times, 29 December 2007 2 March 2009).