

# Free essay on father of macroeconomics

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## **Abstract**

John Maynard Keynes was one of the most celebrated economists of his times. His propositions on economics were immensely popular and were subsequently applied by governments in policy formulations. The various economic concepts of multiplier effect, circular flow of money, IS curves, general theory of income, employment and prices, deficit financing are subject matters of immense study and are still applied, modified and criticised by modern day economists. In order to better explain Keynesian concepts, an entire branch of economics, econometrics has been evolved by later economists. This paper will try to find out the extensive work done by Keynes and his ardent followers belonging to the Keynesian school of thought.

## **Introduction**

John Maynard Keynes was one of the most celebrated economists during his times. He was born in an academic family in Cambridge in the year 1883. His father, John Neville Keynes taught political economy and logic in the University of Cambridge and his mother, Florence Ada Brown was a successful author and pioneer in the field of social reform (Sidelski, 2005). She was also the first woman mayor of Cambridge. Keynes attended Eton College in the year 1897 and was selected among the top ten places. He also scored the highest marks in mathematics. Alfred Marshall was also one of his instructors. He established a career with civil service in 1905 after he became a graduate. However, he switched over to the teaching line and

became the editor of Economic Journal in the year 1911. His first book was published in the year 1913 and it was titled Indian Currency and Finance.

## **Thesis**

The paper will try to find out the relevance of Keynes' economic theory. He is rightly called the father of macroeconomics as his theories are still researched in order to determine their relevance to today's economic conditions. The paper will thoroughly examine various theories, models and concepts proposed by Keynes and accordingly test their relevance in today's economic conditions.

## **Keynes' economic theories**

One of the most celebrated works by Keynes was The General Theory of Employment, Interest and Money published in the year 1936. He became a celebrated economist after this publication and earned a presence in the House of Lords. Keynes became renowned when he explained the reason behind the Great Depression. The crux of the economic theory proposed by John Maynard Keynes tended to explain the circular flow of money. The notion behind this is that if an economy augments spending then it also leads to acceleration in the level of income. The notion provided by Keynes helped the government to enact varied interventionist policies especially during the Great Depression. Keynes introduced a lot of economic constructs and terms like multipliers, saving and consumption functions, liquidity preference, I-S curve, marginal efficiency of capital and so on to further explain this view. Decades after Keynes, Keynesian Economic theories are still explored, modified and applied by economists. The thesis will try to

explore the contribution of Keynes in economics.

Keynes, in his General Theory introduced a lot of concepts like aggregate demand, which is the sum total of government spending, investment and consumption. According to Keynes, a deduction in wages would lead to a decrease in consumption, income and aggregate demand. Hence, Keynes was in favour of deficit spending especially during the times of recession in order to ensure that optimum levels of employment existed. According to Keynes, the general rate of wages should not fall so as to eliminate unemployment. Hence, he advocated inflationary policies which would not change the nominal rate of wages even though the real rate of wages decline (Lerner, 2013).

The Keynesian school of economics proposes the following views. According to them, the sum total of demand functions is influenced by a plethora of economic decisions and policies, both private and public. The public decisions are those which have to do with fiscal and monetary policy. Also the followers of Keynes believe that if the aggregate demand change then it has the highest impact on employment and real output but not prices. Prices are not affected by changes in the aggregate demand at least in the short run. In this case, the anticipated changes in the monetary policy can influence employment and real output given that some prices are rigid (Bartlett, 1928). Alternately, injecting new money into the economy will modify prices by similar rate. Hence all models of Keynesian economics explain prices and wages to be rigid. Given the assumption that prices are rigid, Keynes propose that changes in any spending component like government expenditures, investment and consumption will lead to changes

in the level of output. Given the assumption that other components are constant, an increase in government spending will lead to a change in the output level. Keynesian school of thought also introduced the multiplier effect on economic models. According to the multiplier effect, any spending by the government led to spending circles which augmented prosperity and employment irrespective of the form of spending carried out by the government. However, the general assumption behind the multiplier theory is that the multiplier should be more than zero. Also the Keynesian school of thought believes that changes in demand and supply may not immediately lead to a change in the prices and wages. This may lead to a condition of surpluses and shortages in labour. This is the concept of sticky prices which the Keynesian School of Thought believes in (Hazlitt, 2007).

## **Conclusion**

Keynes economic theories were implemented during the Great Depression when governments decided to follow the path of deficit financing in order to curb the ongoing economic depression. Keynes was not only a celebrated economist but is considered as the father of macroeconomics. Initially Keynes was criticized but then, policy makers and economists began to advocate his view as it proposed a logical reasoning behind the intervention of the government in an economy constrained by the doctrines of laissez-faire proposed by classical economists, the balanced budget regulation and the gold standard. His economic theories displayed a practical approach and are subject matters of immense research even today.

## **Reference**

Sidelski, R. (2005). John Maynard Keynes 1883 – 1946: Economist, Philosopher, Statesman. New York: Penguin Books.

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Hazlitt, H. (2007). The failure of the 'new economics': an analysis of the Keynesian fallacies. Auburn: Ludwig von Mises Institute.