Keynes Reaction

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John Maynard Keynes’ views have taken over the world. Economics 101 is basically his theories. To be fair, his theories seem to be more nuanced than the classical economists who came before. For example, instead of just making a sweeping assumption that wages are fluid, Keynes looks a bit more into the details and says that wages are actually not fluid, but people resist them lowering. We can see a perfect example in the protests ongoing in Greece. Furthermore, there is a distinction between real and nominal wages.

Plus Keynes adds the possibility that people might choose to save – not just consume immediately. Plus consumers are even more likely to do so if they think the economy will get worse in the future. Plus, businesses do not want to invest, even though interest rates are lower because they don’t think they need to grow capacity.

The whole study of what causes what to move is fascinating. The graphs which came out of the IS-LM models helps us understand these concepts better than just the written word, since it allows to visualize the changes better.