Keynesian and Neoclassical Economics

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Institution

Date

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Keynesian economists could describe the economy as being on the expansion. In this case, they would term the economy as having been improving in recent years, and therefore being better than before. The aggregate demand has increased with time. This is because there has been an increase in the level of total spending of the economy. The government has been spending more finances to enhance economic development (Bober 2019). In return, there is much more money in circulation. People have a higher ability to purchase different items. In addition, there has been a reduction in the rate of taxes. This has also increased the aggregate demand of the people, thus boosting the rate of economic development.

The neoclassical economists could describe the performance of the economy in recent years as having increased. This is as a result of an increase in the supply of products in the market. Due to the increase in the supply, the prices of the products have reduced, thus enhancing a higher level of demand for the products. The evidence to support this is that more people are able to buy more items with the same level of income that they have had for some time (Morgan 2015). Between the neoclassical and Keynesian economists argument, the Keynesian explanation makes more sense. It is more possible that demand is stimulated by more money in circulation rather than the supply. In this case, more money means higher purchasing power for the people, and thus a higher demand which contributed to higher growth of the economy.

The expenditure multiplier matters in the real world as it measures the rate at which a change in aggregate production is caused by a change in autonomous expenditure. It also matters to employees, and businesses in that it determined the amount of production that could be enough to match the level of expenditure in the market (Ruccio & Amariglio 2016). It's effective for planning. The government took the right fiscal action during the great depression, as it initiated a reduction in taxes, an increase in government expenditure, which increased the purchasing power of the people, thus increasing demand. An increase in demand assisted in taking the economy back to the right track.

References

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