

Keynes's General Theory: Discussion Questions I

1. Why did Keynes mean by saying his was a *general* theory? Use a production possibilities model to explain the distinction between Keynes's general theory and the neoclassical special case.
2. "A monetary economy...is essentially one in which changing views about the future are capable of influencing the quantity of employment and not merely its direction." (GT, p. vii). Explain.
3. Keynes describes the "struggle of escape from habitual modes of thought and expression." "The difficulty lies, not in the new ideas, but in escaping from the old ones..." Discuss with regard to recent and current policy debates, e.g., budgetary policy.
4. Why was Keynes committing a "solecism" when he defined "classical" economics as everything from Ricardo to Pigou? What is the difference between the Classical and Neoclassical versions of Say's Law?
5. What did Keynes mean when he said that "the characteristics of the special case assumed by the [neo]classical theory happen not to be those of the economic society in which we actually live, with the result that its teaching is misleading and disastrous if we attempt to apply it to the facts of experience" (GT, p. 3)? Is *assume* really correct here (i.e., does neoclassical theory *assume* full employment)? (See also, GT, p. 34.)
6. New Keynesian economists identify involuntary unemployment as unemployment due to 'sticky wages.' Use the neoclassical labor market diagram to show how unemployment can be due to rigid wages completely within the neoclassical framework. Find the passage in Keynes where he explicitly states that his argument does not depend on whether money-wages are liable to change or not. (also, read GT, chapter 19).
7. Why did Keynes believe that in fact in the real world money wages do—and real wages do not—tend to be downwardly rigid? Why would workers refuse a cut in their money wage but not resist a reduction in their real wage due to an increase in the price level (other than that they suffer from "money illusion")? (After answering this question, see GT, ch. 19, especially pp. 264, 267, 269, 271). What are some of the issues Keynes explores in ch. 19 with respect to the possible impacts of changes in money-wages?