

Keynesian macroeconomics in five graphs with one page of refutations

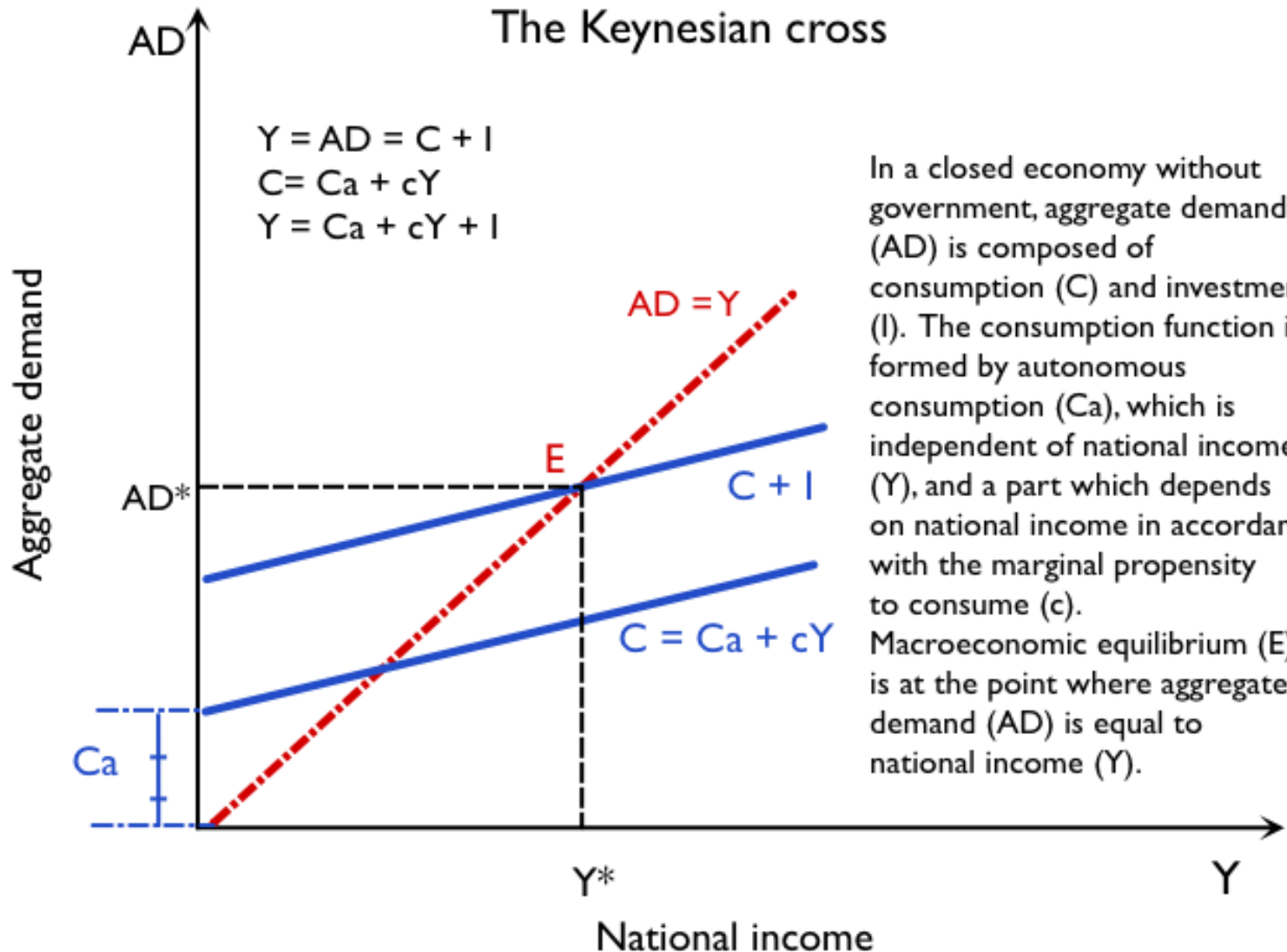
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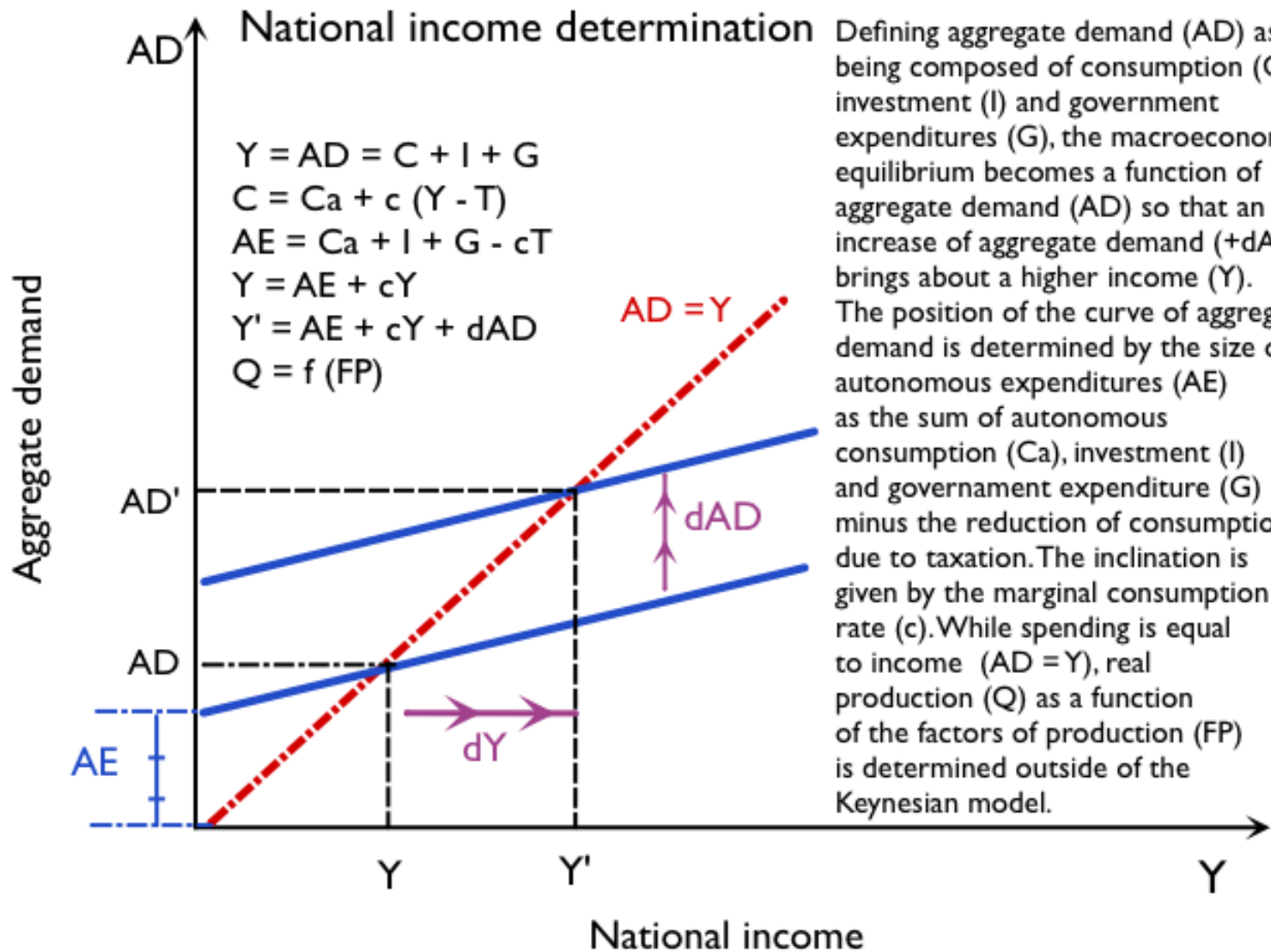
UFS

March 2013

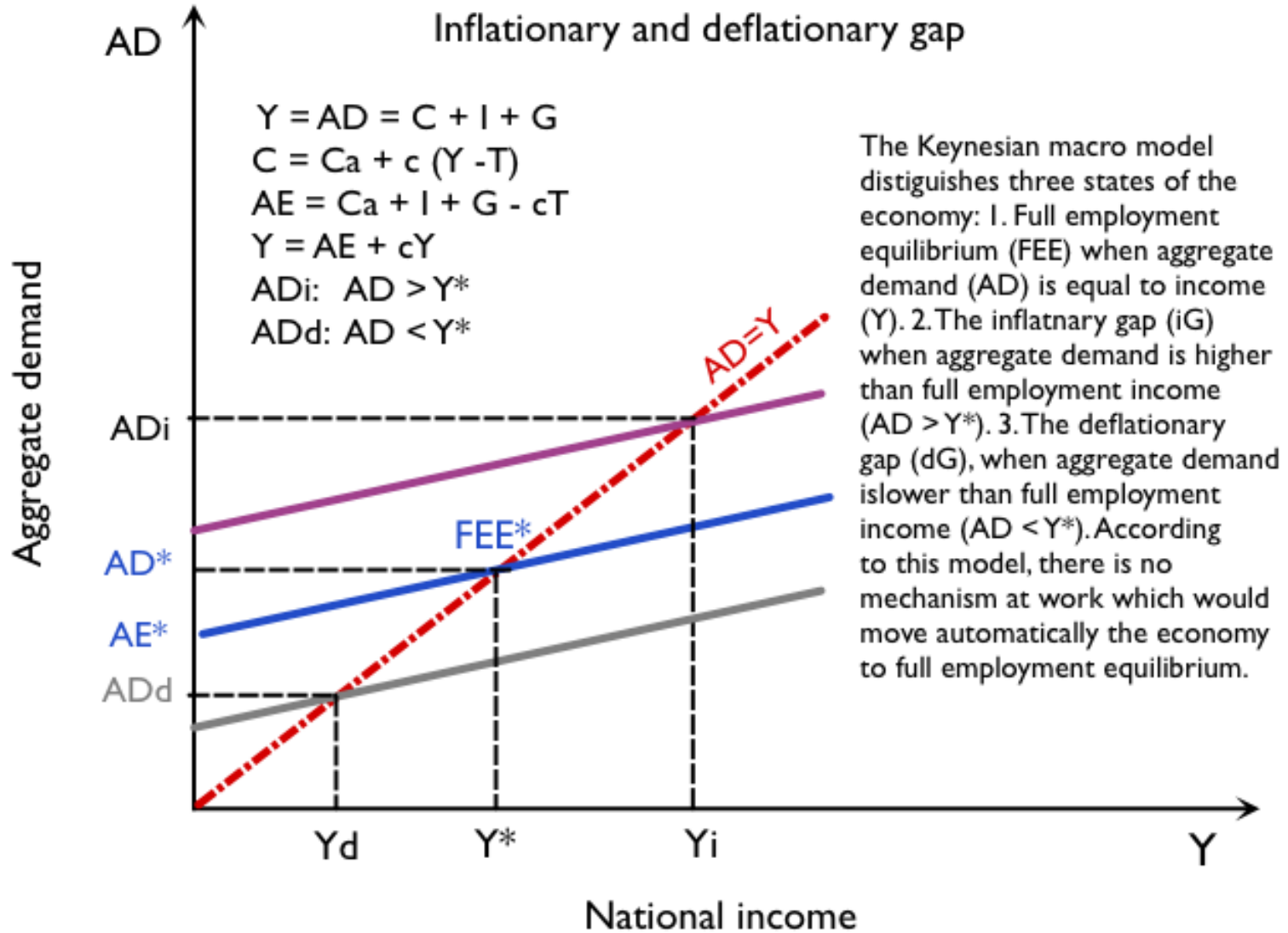
The Keynesian cross



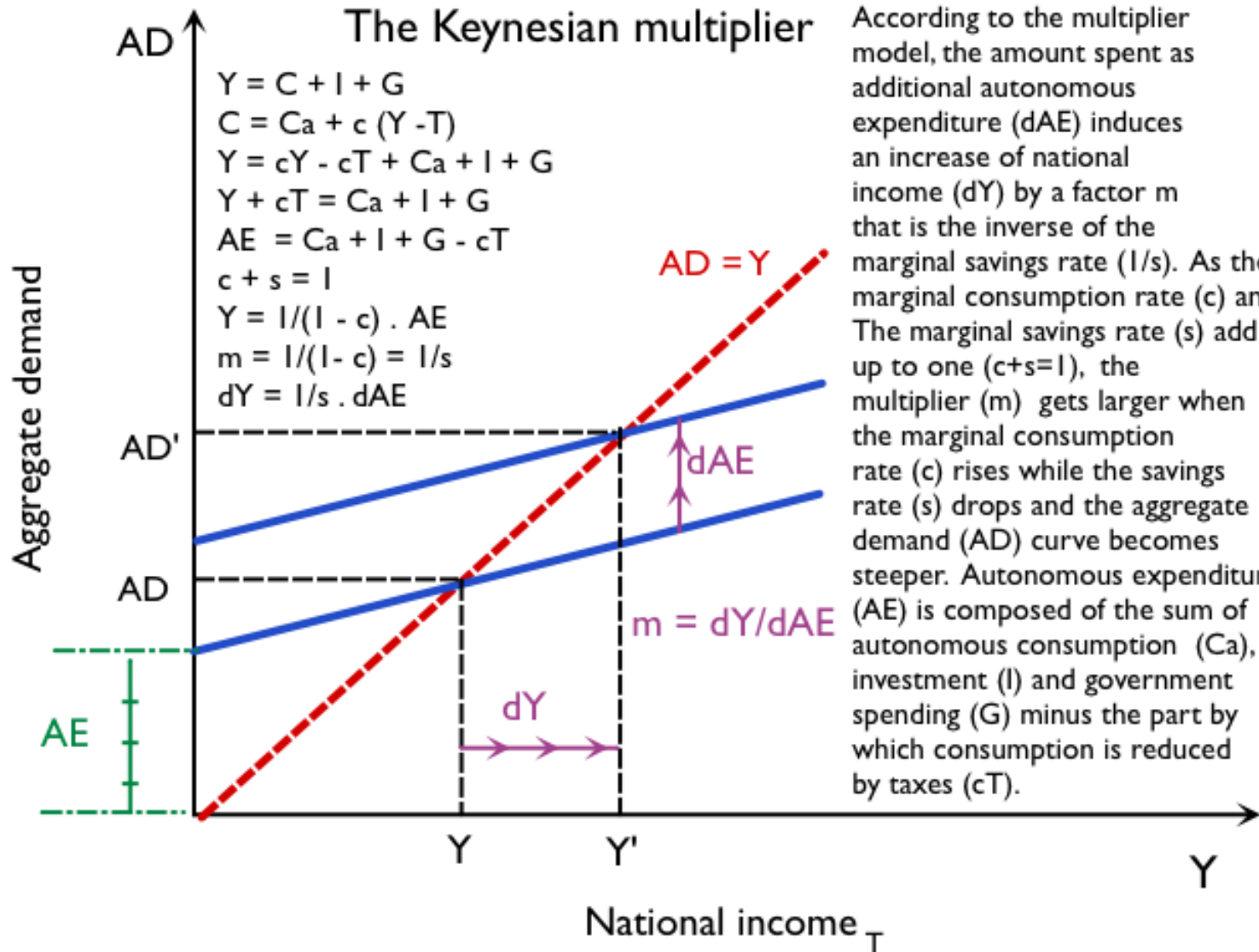
In a closed economy without government, aggregate demand (AD) is composed of consumption (C) and investment (I). The consumption function is formed by autonomous consumption (C_a), which is independent of national income (Y), and a part which depends on national income in accordance with the marginal propensity to consume (c). Macroeconomic equilibrium (E) is at the point where aggregate demand (AD) is equal to national income (Y).



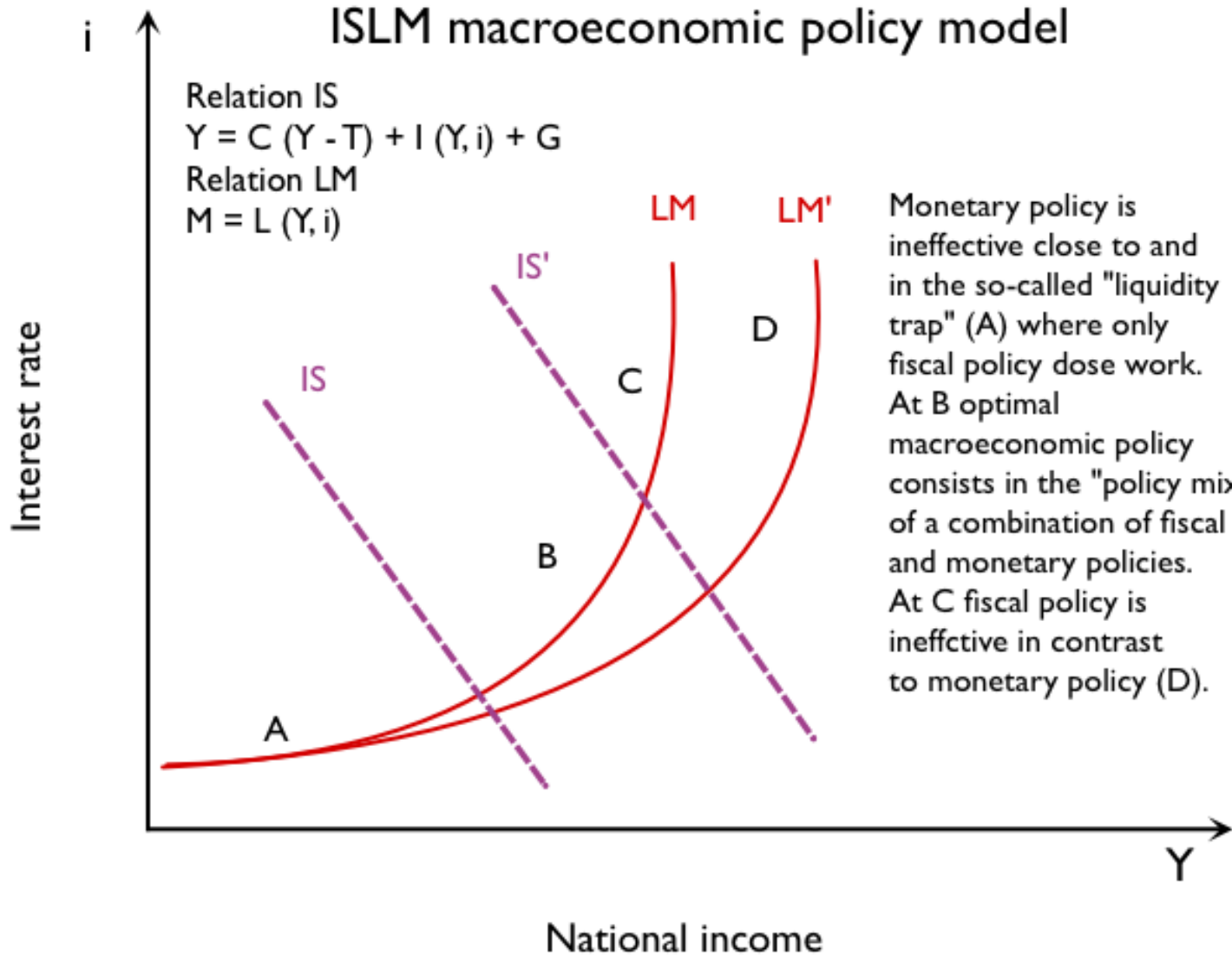
Inflationary and deflationary gap



The Keynesian multiplier



ISLM macroeconomic policy model



Keynesian macroeconomic policy - theoretical concepts and empirical reality

Subject Area	Theory	Empirical Reality
Economic policy	anticyclical stabilization	cyclical destabilization
Diagnosis	certain	uncertain
Timing	correct	time-lags
Dosage	specific	over- and underdose
Politics	common good	special interests
Bureaucracy	efficient and neutral	Inefficient and biased
Demand	aggregate - unspecific	structurally specific
Supply	overproduction – unused capacity	distortions of capital structure
Demand-supply relation	congruent	incongruent
Money	deflationary	inflationary
Government budget	deficit spending (fiscal expansion)	monetary expansion
Public debt	stable relation of debt do income (D/Y)	rising
Multiplier	high	low or negative
Political regime	stabilization of confidence	regime uncertainty
Government expenditure	flexibility of expansion and restriction	ratchet effect
Interventionism	systematic	ad hoc chaotic
Results	full employment	stagflation

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