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Paper - MDC
Topic - Classical and Keynesian System

Classical and Keynesian Economic Systems

1. Origins and Historical Context

Classical Economic System

- ☐ Originated in the late 18th and early 19th centuries.
- ☐ Founding thinkers: Adam Smith, David Ricardo, and John Stuart Mill.
- ☐ Core idea: **"The invisible hand"** ensures efficient resource allocation.

Keynesian Economic System

- ☐ Developed during the Great Depression (1930s) as a critique of Classical economics.
- ☐ **Founder:** John Maynard Keynes.
- ☐ **Focus:** The need for active government intervention during economic downturns.

Classical Economics

- **Market Mechanism:** Emphasis on self-regulating markets.
- **Role of Government:** Minimal intervention; the government should only provide basic public goods.
- **Supply-Side Focus:** Supply creates its demand (Say's Law).
- **Wages and Prices:** Flexible; adjust to bring the economy back to equilibrium.

Keynesian Economics

- **Aggregate Demand:** Focus on total spending as the driver of economic activity.
- **Role of Government:** Active fiscal and monetary policies to stabilise the economy.
- **Demand-Side Focus:** Emphasis on consumer demand to drive economic growth.
- **Sticky Wages and Prices:** Recognizes that wages and prices may not adjust quickly, leading to prolonged unemployment.

3. Policy Implications

Classical Economics

- Favour policies that encourage free markets, low taxes, and minimal regulation.
- Advocates long-term solutions for economic stability rather than short-term fixes.

Keynesian Economics

- Supports government spending and tax adjustments to manage economic cycles.
- Encourages short-term intervention to prevent recessions and reduce unemployment.

4. Critiques and Modern Relevance

Critiques of Classical Economics

- Overemphasis on long-term equilibrium.
- Neglects short-term crises and unemployment.

Critiques of Keynesian Economics

- Risk of inflation due to excessive government spending.
- Concerns about increasing public debt.

Modern Relevance

- Classical principles resonate with free-market advocates.
- Keynesian ideas influence policies during economic crises (e.g., 2008 financial crisis, COVID-19 pandemic).