The General Theory: A Paradigm Shift in Economic Thought

Introduction

The General Theory of Employment, Interest, and Money, published in 1936, was John Maynard Keynes's magnum opus and one of the most influential works in the history of economic thought. Keynes sought to revolutionize economic theory by challenging the classical and neoclassical assumptions that had dominated the field for centuries.

Keynes argued that the economy is not self-correcting and that government intervention is necessary to maintain full employment and stable prices. He developed a new theory of effective demand, which showed how aggregate spending determines the level of output and employment. He also developed a new theory of interest, which showed how the liquidity preference of individuals and firms affects the interest rate.

The General Theory had a profound impact on economic policy. It led to the adoption of Keynesian policies, which focused on increasing aggregate demand through government spending and monetary policy. Keynesian policies were widely used in the post-World War II era to promote economic growth and reduce unemployment.

However, the General Theory has also been the subject of much debate and controversy. Critics have argued that Keynes's theory is based on unrealistic assumptions and that his policy recommendations are ineffective or even harmful. Despite these criticisms, the General Theory remains a major touchstone for economic thought and continues to be studied and debated by economists today.

In this book, we will explore the key concepts of the General Theory and its implications for economic policy. We will also examine the criticisms of the General Theory and assess its legacy.

This book is intended for a general audience and does not require any prior knowledge of economics. We hope that this book will help readers to understand the General Theory and its importance in the history of economic thought.

Book Description

The General Theory: A Paradigm Shift in Economic Thought is a comprehensive and accessible guide to John Maynard Keynes's General Theory of Employment, Interest, and Money. Keynes's General Theory revolutionized economic thought and led to the development of Keynesian economics, which has been one of the most influential schools of economic thought for the past century.

In this book, Pasquale De Marco provides a clear and concise explanation of the key concepts of the General Theory, including effective demand, the multiplier effect, liquidity preference, the marginal efficiency of capital, and the rate of interest. Pasquale De Marco also examines the implications of the General Theory for economic policy, showing how Keynesian policies can be used to promote economic growth and reduce unemployment.

The General Theory: A Paradigm Shift in Economic Thought is essential reading for anyone who wants to understand the General Theory and its importance in the history of economic thought. It is also a valuable resource for students of economics, policymakers, and anyone interested in the history of ideas.

About the Author

Pasquale De Marco is a professor of economics at the University of Cambridge. He is the author of numerous books and articles on Keynesian economics and the history of economic thought.

Chapter 1: The Birth of the General Theory

Keynes's Intellectual Journey

John Maynard Keynes was born in Cambridge, England, in 1883. His father was a successful economist, and Keynes himself showed an early aptitude for mathematics and economics. He studied at Eton College and King's College, Cambridge, where he excelled in his studies.

After graduating from Cambridge, Keynes worked in the British civil service and then as a journalist. In 1913, he published his first major work, Indian Currency and Finance, which established him as a leading expert on monetary economics.

During World War I, Keynes served in the British Treasury, where he helped to manage the war effort. After the war, he was appointed to the British delegation to the Paris Peace Conference. Keynes was deeply disillusioned by the Treaty of Versailles, which he believed was too harsh on Germany and would lead to another war.

In the aftermath of the war, Keynes returned to Cambridge, where he became a Fellow of King's College. He also published a number of important works on economics, including A Treatise on Money (1930).

The Great Depression began in 1929, and Keynes was deeply affected by the economic crisis. He began to develop a new theory of economics that would challenge the classical and neoclassical assumptions that had dominated the field for centuries.

Keynes's new theory was published in 1936 as The General Theory of Employment, Interest, and Money. The General Theory was a radical departure from traditional economic theory, and it had a profound impact on economic thought and policy.

Keynes's intellectual journey was a long and winding one, but it ultimately led him to develop one of the most important economic theories of the 20th century.

Chapter 1: The Birth of the General Theory

The Economic Landscape of the 1930s

The 1930s was a time of great economic turmoil. The Great Depression, which began in 1929, caused widespread unemployment, poverty, and social unrest. In the United States, the unemployment rate reached 25% at its peak, and millions of people lost their jobs, homes, and savings.

The Great Depression was a global phenomenon, but it hit the United States particularly hard. The country's economy was heavily dependent on manufacturing, and the collapse of the stock market in 1929 led to a sharp decline in investment and consumer spending. The Smoot-Hawley Tariff Act of 1930, which raised tariffs on imported goods, further exacerbated the economic downturn.

The Great Depression had a profound impact on the American people. Millions of people lost their jobs and their homes, and many families were forced to rely on government assistance to survive. The Depression also led to a decline in social and political stability, as people began to lose faith in the government and the economy.

The economic crisis of the 1930s had a major impact on the development of Keynesian economics. Keynes argued that the classical and neoclassical theories of economics were inadequate to explain the Great Depression. He developed a new theory of effective demand, which showed how aggregate spending determines the level of output and employment. Keynes also developed a new theory of interest, which showed how the liquidity preference of individuals and firms affects the interest rate.

Keynes's General Theory of Employment, Interest, and Money, published in 1936, had a profound impact on economic thought and policy. Keynes's ideas helped to revolutionize the way economists think about the economy, and they continue to be influential today.

The Causes of the Great Depression

The Great Depression was caused by a complex set of factors. Some of the most important factors include:

- **The stock market crash of 1929.** The stock market crash of 1929 was a major turning point in the Great Depression. The crash led to a loss of confidence in the economy and a sharp decline in investment and consumer spending.
- **The Smoot-Hawley Tariff Act of 1930.** The Smoot-Hawley Tariff Act of 1930 raised tariffs on imported goods. This made it more expensive for Americans to buy foreign goods, and it also made it more difficult for foreign countries to sell their goods in the United States. The Smoot-Hawley Tariff Act exacerbated the economic downturn

and contributed to the spread of the Great Depression.

- **The gold standard.** The gold standard was a system of fixed exchange rates that was in place in most countries during the 1930s. The gold standard made it difficult for countries to devalue their currencies, which limited their ability to stimulate their economies. The gold standard also contributed to the spread of the Great Depression.

The Impact of the Great Depression

The Great Depression had a devastating impact on the American economy and society. The unemployment rate reached 25% at its peak, and millions of people lost their jobs, homes, and savings. The Depression also led to a decline in social and political stability, as people began to lose faith in the government and the economy.

The Great Depression had a lasting impact on the American economy and society. The Depression led to the New Deal, a series of programs that were designed to help the country recover from the Depression. The New Deal had a mixed record of success, but it did help to lay the foundation for the post-World War II economic boom.

Chapter 1: The Birth of the General Theory

The Cambridge Circus

The Cambridge Circus was a group of brilliant economists who gathered at the University of Cambridge in the 1930s. They were all influenced by the work of John Maynard Keynes, and they helped to develop and refine his ideas.

The Cambridge Circus included economists such as Richard Kahn, Joan Robinson, Piero Sraffa, and James Meade. They met regularly to discuss economic theory and policy, and they often engaged in heated debates. However, despite their differences, they were all united by their belief in the importance of Keynes's ideas.

The Cambridge Circus played a major role in the development of Keynesian economics. They helped to refine Keynes's ideas and to develop new models and theories. They also helped to spread Keynes's ideas to a wider audience.

The Cambridge Circus was a major force in the development of economic thought in the 20th century. Their work helped to shape the way we think about the economy and to develop new policies to promote economic growth and stability.

The Cambridge Circus was more than just a group of economists. It was a community of scholars who were dedicated to understanding the economy and to improving the lives of others. They were passionate about their work, and they were always willing to challenge conventional wisdom.

The Cambridge Circus was a hotbed of new ideas. Keynes's ideas were constantly being debated and refined, and new theories were being developed all the time. The Cambridge Circus was a place where intellectual ferment was encouraged, and where new ideas were always welcome.

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This extract presents the opening three sections of the first chapter.

Discover the complete 10 chapters and 50 sections by purchasing the book, now available in various formats.

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