Outline

I. Economic instability during the interwar period (1920 – 1939) and post-war developments
Global macroeconomic instability, particularly after 1929, posed a challenge to the self-regulating views associated with classical and neoclassical economics. At Cambridge University, John Maynard Keynes began to articulate views about the macroeconomy that focused on instabilities and a potential stabilizing role for the government.

II. Keynes (1883 – 1946)
A. Life and milestones:
   - Marshall, Cambridge, Bloomsbury
   - British civil service, work at the Treasury
   - Bretton Woods (1944)

B. Characteristics of economic thought:
   - Concept of the government as an economic decision maker
   - Attack on laissez faire
   - Emphasis on differences between a real exchange economy and a monetary economy
   - Concept of less-than-full-employment equilibrium
   - Shift in focus from aggregate supply to aggregate demand as part of business cycle behavior
   - Disruption of the savings / investment equality

III. Keynesianism
In the post-war years, Keynes’s ideas were transformed into Keynesianism, an optimistic set of ideas about the ability to regulate an economy that dominated economic policy making until the 1970s. In opposition to the tenets of classical economics, Keynesian economics stresses that there is no strong automatic tendency for output and employment to move toward full employment levels.

A. Key figures in the post-war proliferation and current advocacy of Keynesian ideas:
   - John Hicks (1904 – 1989), whose IS-LM analysis provided a policy-oriented model for explaining and implementing Keynesian ideas.
   - Alvin Hansen (1887 – 1975), the “American Keynes”.
   - Paul Samuelson (1915 – 2009), whose *Economics, An Introductory Analysis* (1948) popularized many Keynesian ideas.
   - Paul Krugman (1953 – )

B. Ideas and models associated with Keynesianism:
   - The “Keynesian” consumption function, income-expenditure model, and the multiplier concept.
   - Hicks and the IS-LM model.
   - Macroeconomic stabilization policies – “activist” fiscal policy.

IV. The Keynesianism Crisis
Economic instability in the 1970s and the simultaneous occurrence of inflation and unemployment sowed the seeds of doubt about Keynesianism. What followed was a re-emergence of a classical belief in the inherent stability of an economy, and more nuanced views about Keynesian analysis and prescriptions.