

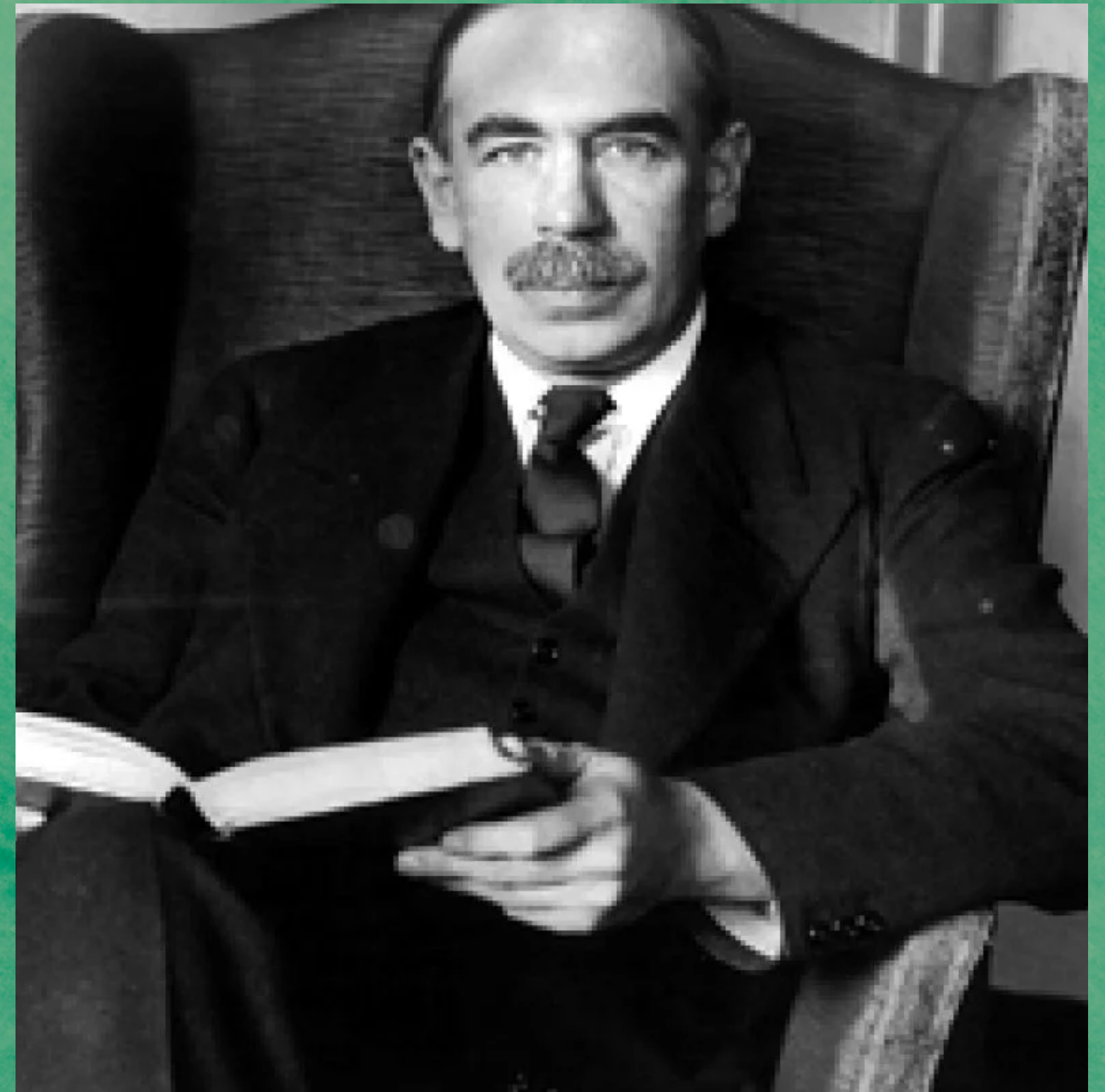
Keynes: the propensity to consume, the propensity to save and the multiplier effect

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GREAT ECONOMIC THINKERS

Introduction : John Maynard Keynes: Revolution in Macroeconomics

- Born in 1883, profound influence on the 20th century
- Crucial theories during and after the Great Depression

the propensity to consume, the propensity to save and the multiplier effect.



Historical background

Before Keynes: The era of “laissez-faire”

- Dominance of classical theory and minimization of state intervention
- The Great Depression of the 1930s: the limits of this approach
- Deep recession, massive unemployment and falling output.
- New economic vision: government intervention, in the form of public spending, to stimulate demand and pull the economy out of recession.



Propensity to Consume

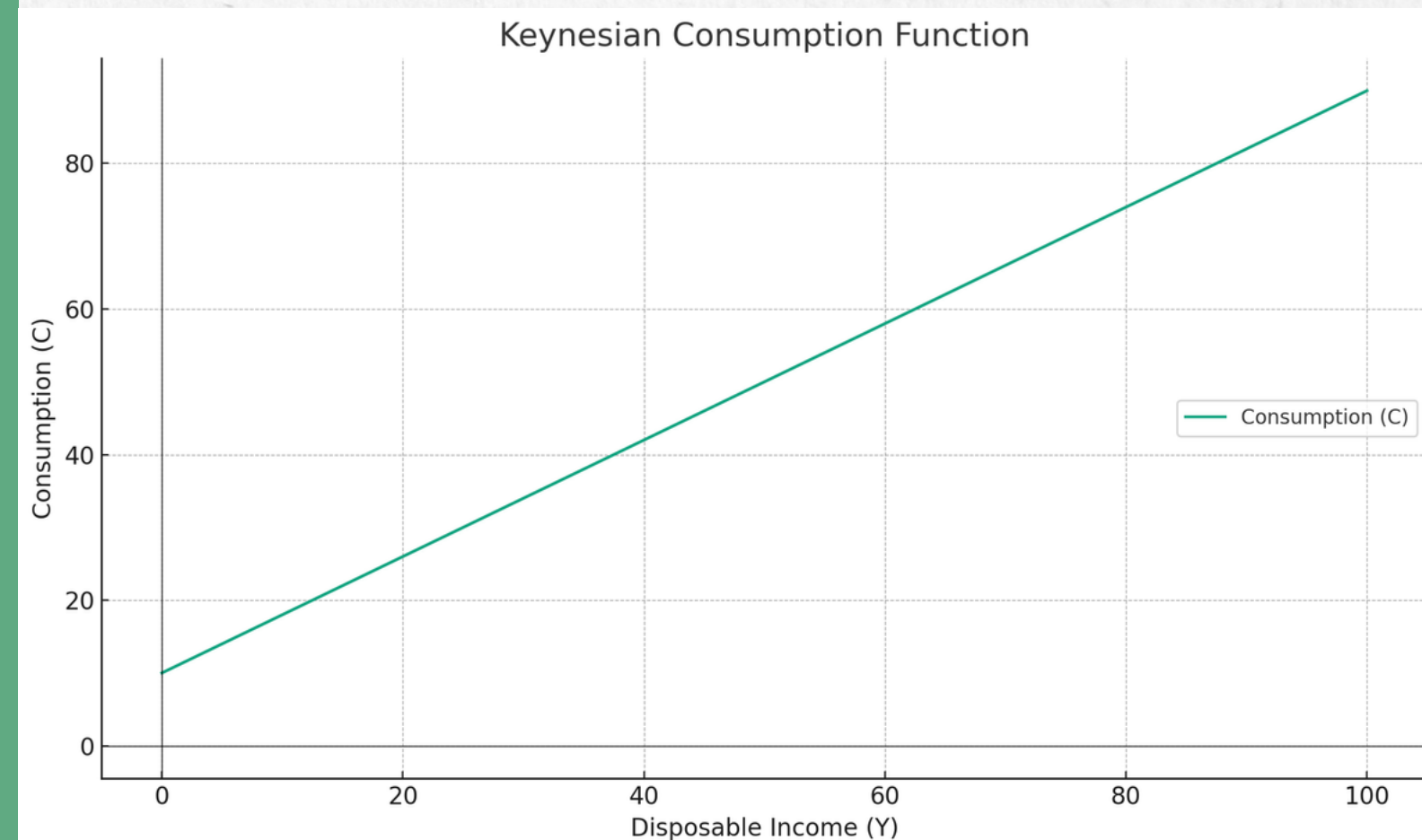
Tendency of individuals to spend part of their income.

PMC vs. APC: Distinction between Marginal Propensity to Consume (below unity) and Average Propensity to Consume.

Implication: If income rises, overall consumption also rises, but at a slower pace.

Consumer Confidence: Key factor in the decision to spend or save, especially in times of economic uncertainty.

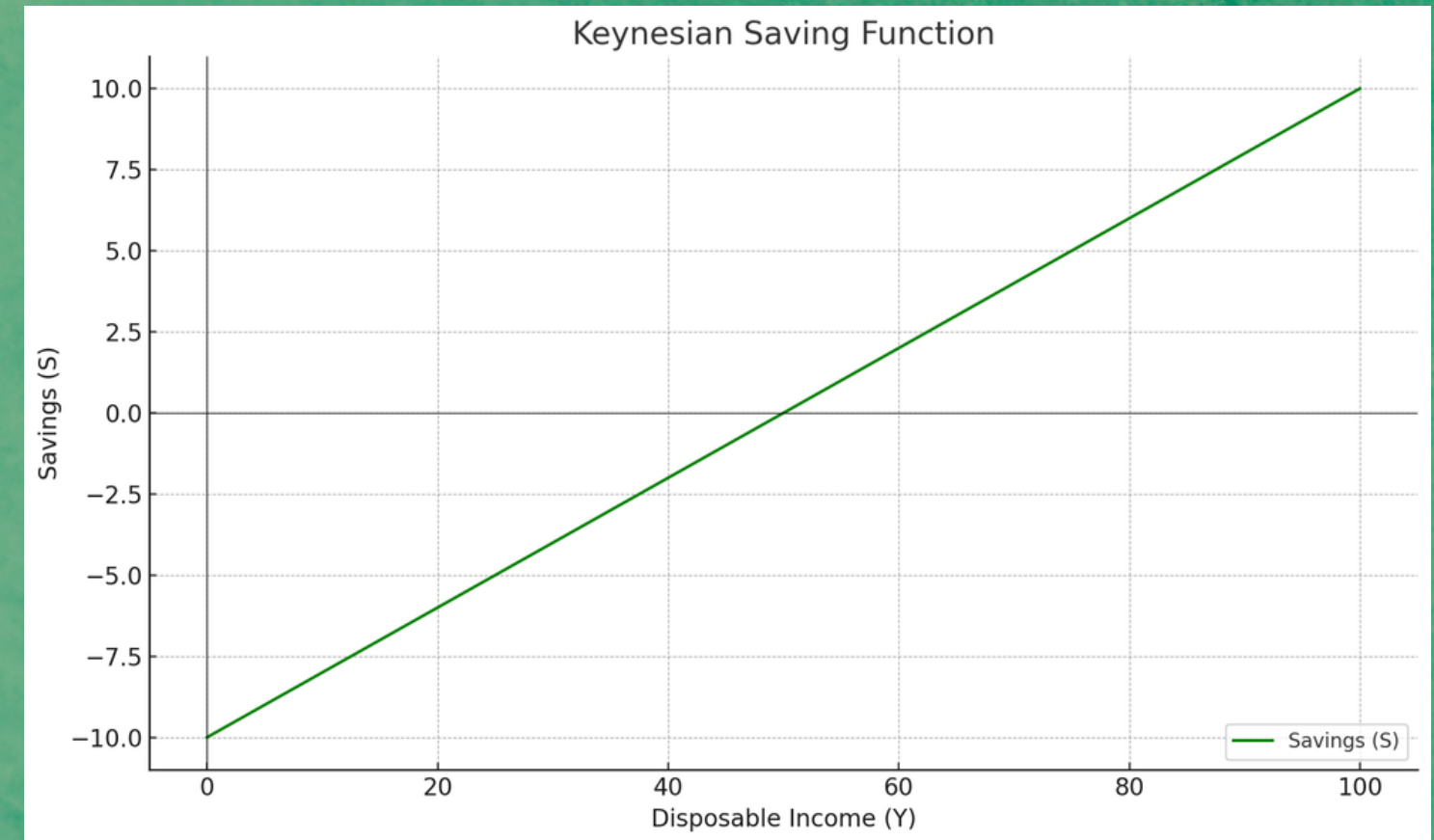
Government role: Intervention to increase public spending and stimulate aggregate



Propensity to save

Portion of income not spent on immediate consumption.

- **Virtue vs. Vice:** Saving is an individual virtue that can - become a collective vice if it exceeds available investments.
- **Savings Paradox:** Increased savings during a recession can reduce aggregate demand, leading to a deeper economic slowdown.
- **Governmental role:** Intervention is necessary to stimulate investment and consumption and maintain economic equilibrium.



Keynes' Multiplier Effect

"The multiplier effect explains how an initial injection of spending (e.g. government spending) leads to a multiple increase in output and total income in the economy."

Role of the Marginal Propensity to Consume (MPC):

Key to the effect: when people receive additional income, they spend some of it, thereby increasing the income of others, and so on.

Practical Illustration:

Investment in new infrastructure → Increased spending by workers → Chain effect on income and consumption.

Importance of PMC:

The higher the PMC, the greater the multiplier effect, as each euro spent generates more income and additional spending.

Effect limits:

Proximity to the economy's maximum capacity can lead to inflation rather than increased production.

Criticism and Keynes's legacy

Criticism

Inflation and accumulation of public debt due to government spending policies.

Wage and Price Rigidity

Contrasts with Keynes's vision of flexible adjustment.

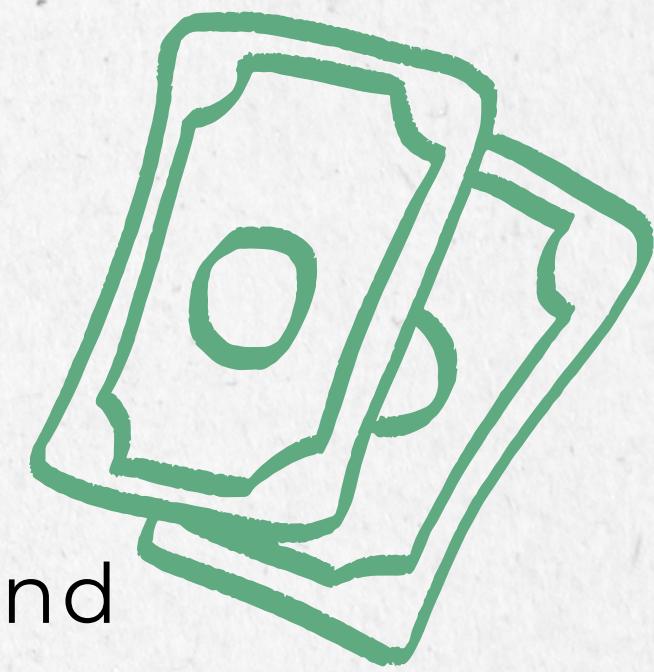
Positive legacy

Proactive government intervention, global economic recovery strategies, importance of stable employment and social welfare.

Major Contribution

Paradigm shift in economic thinking, creation of international financial institutions.

Conclusion



- **Theoretical Framework:** Keynes' contributions as a foundation for understanding consumption, savings and investment.
- Importance of consumer confidence.
- Active role of government in regulating the economy.
- **Debate and Criticism:** Despite debate, Keynes's profound influence on economic policy and the understanding of business cycles.



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for listening!**