- Trickle-down economics say that all fiscal policy should benefit the wealthy since the wealthy are business owners, benefits to them will trickle down to everyone.
- Monetarists claim that monetary policy is the real driver of the business cycle. Monetarists like Milton Friedman blame the Depression on high interest rates. They believe the expansion of the money supply will end recessions and boost growth. Keynesian theory's popularity waned during the 1970s as many advanced economies suffered stagflation, and it had no appropriate policy response for stagflation. Monetarist economists doubted the ability of governments to regulate the business cycle with fiscal policy and argued that judicious use of monetary policy could alleviate the crisis.
- Socialists criticize Keynesianism because it doesn't go far enough. They believe the government should take a more active role to protect the common welfare. → Owning some factors of production.
- Communists believe the government should own everything. The government completely controls the economy.

New Keynesian Theory:

Commented [CA7]:

The brief debate between Keynesians and new classical economists in the 1980s was fought primarily over the first three tenets of Keynesianism. New classical believed that anticipated changes in the money supply do not affect real output; that markets, even labour market, adjust quickly to eliminate shortages and surpluses; and that business cycles may be efficient.

New classical theory (originated in the early 1970s) emphasizes the ability of a market economy to cure recessions by downward adjustments in wages and prices. The new classical economists of the mid-1970s attributed economic downturns to people's misperceptions about what was happening to relative prices.

- The label "new Keynesian" describes those economists who, in the 1980s, responded to this new classical critique with adjustments to the original Keynesian tenets. This revised theory differs from classical Keynesian thinking in terms of how quickly prices and wages adjust.
- ***The primary disagreement between new classical and new Keynesian economists is over how quickly wages and prices adjust***. New classical economists build their macroeconomic theories on the assumption that wages and prices are flexible. They believe that prices "clear" markets—balance **SUPPLY** and **DEMAND**—by adjusting quickly. New Keynesian economists, however, believe that market-clearing models cannot explain short-run economic fluctuations, and so they advocate models with "sticky" wages and prices. New Keynesian theories rely on this stickiness of wages and prices to explain why involuntary **UNEMPLOYMENT** exists and why **MONETARY POLICY** has such a strong influence on economic activity.
- A long tradition in macroeconomics (including both Keynesian and monetarist perspectives) emphasizes that monetary policy affects employment and production in the short run because prices respond sluggishly to changes in the **MONEY SUPPLY**. According to this view, if the money supply falls, people spend less money and the demand for goods falls. Because prices and wages are inflexible and do not fall immediately, the decreased