The Classical Economic Model and Keynesian Economic Model

When talking about economics, it is important for us to cover certain topic areas. Throughout this paper we will digest the differences between the classical economic model, Keynesian economic model, a description of the impact on the aggregate demand and supply curves, along with the impact on inflation and unemployment.

(The main plank of Keynes's theory, which has come to bear his name, is the assertion that aggregate demand — measured as the sum of spending by households, businesses, and the government — is the most important driving force in an economy.) The theory of Keynesian economics derives from British economist John Maynard Keynes forming from his analysis of the Great Depression in the 1930's. Some of the differences between the Keynesian theory and classic economic theory affect the government's policies, thus believing the government should have dynamic control over the economy, while the other believes that it is the economies best interest if left alone to regulate itself. For small business owners these implications of both have small consequences when making critical decisions in developing their companies.

Under the Keynesian economics the individuals believe that capitalism is a good system whereby when times are good and people are working, earning money and spending it on things they want it helps stimulate the economy allowing things to run smoothly. On the other hand, when the economy is not doing as well you see a shift in the mood. You tend to see business start closing and layoffs during the tougher times. There is a shift in the way people spend money no longer on the things they want but the things they need and try to save what little they have left. This ease in spending has a ripple effect which eventually causes the economy to lose its momentum and spiral farther down. At this point the Keynesian theory states exactly when government intentions make sense. If society isn't spending money to keep the economy flowing then the government has to step in and fill its void. The only problem with this theory is that the government doesn't have its own money. It relies on having to take money from people and companies to spend it thus having higher taxes for businesses which syphons money away from companies being able to invest to further grow their company.

School of economic thought which stresses that economies function most efficiently if everyone is allowed to pursue his or her self-interest, in an environment of free and open competition. (Business Dic., 2015) This theory focuses on free markets regulating themselves if left alone. The idea is that the markets will find its own level of equilibrium without the interference by people for the government. Within this economical structure people are free to pursue their own self-interest in various types of free markets that are open to all competitors.

Government spending and a dislike against more government debt, is frowned upon by classical economists. Classic economist think unemployment results from the interference by the government in the free market or an existence of a monopoly within an industry. A balanced budget is preferred because they do not believe an economy typically benefits from higher government spending. Although such economists have concerns about unemployment they tend to be more worried about inflation. Inflation is seen as the biggest threat to a strong, long term growth to the economy.

When it comes to supply and demand with classical economic supporters they want a market that is free to find its own levels. These supporters believe that the prices of goods should fluctuate based on what the consumer wants. Their logic simply displays a market which will adjust itself to any shortages and surpluses of products. On the other hand, Keynesians believe that prices of goods should be more rigid and price stability should be maintained by the government. Keeping prices within a specific range through the governments influence on people and corporations are one of the by-products of Keynesian economics.

A key point to define is a clear difference between Keynesian and Classicists is a prediction and treatment of future growth within said economy. Keynesians tend to focus on short term problems, seeking these issues as immediate concerns in which the government must deal with in order to assure the long-term growth of an economy. Classicists' focal point is on getting long-term results by allowing the free market to adjust short-term problems. They believe that short-term problems are simply obstacles that the free market will eventually solve for itself.

So throughout this paper we have been able to see two different types of economists. Depending what type of business you embark upon, one might work better than the other.