

# Keynesian School vs. Chicago School

## Answer Key

**Directions:** Mark an X on the economists who support each view with their own economic theory.

View on Economic Theory	Keynesian School of Economics	Chicago School of Economics
Recessions are the product of deficient aggregate demand. The source does not matter. Government should step in and boost demand through activist policy.	X	
Recessions are a necessary evil, reflecting the mistakes of individuals made in the past. Government should not intervene. Let prices and wages influence decisions and restore full employment levels of production.		X
Increases in government spending can successfully boost spending and investment without causing problems.	X	
For reasons unknown, the gains from trade between individuals are sluggish. Government should step in to help through expansionary fiscal policy.	X	

View on Economic Theory	Keynesian School of Economics	Chicago School of Economics
<p>Let people adjust to the recessionary conditions. Changes in prices, wages, and interest rates will bring about conditions under which full employment will be restored and new growth will emerge.</p>		X
<p>The money supply should grow around two percent to support a healthy economy. It should not expand and contract with recessions and inflationary periods, respectively.</p>		X
<p>Government policy causes people to make decisions that lead to problems that cause recessions.</p>		X
<p>An increase in taxes or a decrease in government spending will effectively relieve inflationary pressures throughout the economy.</p>	X	