

## STUDY QUESTIONS FOR KEYNES - THEORY OF EMPLOYMENT

### CHAPTER 3: Effective Demand and Employment

1. Summarize Keynes' "aggregate supply function" and "aggregate demand function".  
What are the dependent and independent variables in each function?  
Draw a graph of each function.
2. Summarize Keynes' summary of his theory of employment (especially his explanation of equilibrium with unemployment). Illustrate the determination of employment graphically.
3. What does consumer spending depend on?
4. What does investment spending depend on?
5. What is Keynes' explanation of "the paradox of poverty in the midst of plenty"?
6. What are the "three main gaps in our existing knowledge which it is necessary to fill"?

### CHAPTER 18, pp. 245-49: The General Theory Restated.

1. What are the dependent variables in Keynes' theory?
2. What are the main independent variables in Keynes' theory, "in the first instance"?
3. What are the "ultimate" independent variables in Keynes' theory?
4. Summarize Keynes' summary of his theory of employment.

### CHAPTER 19, pp. 260-71: Changes in Money-Wages.

1. Summarize Keynes' analysis of the effects of a reduction in money-wages on employment, on the assumption of constant propensity to consume, interest rate and marginal efficiency of capital.
2. Summarize Keynes' analysis of the effects of a reduction in money-wages on employment, through its effects on the propensity to consume, the interest rate and the marginal efficiency of capital.
3. Summarize Keynes' conclusion in Section 3 (pp. 269-71).