

EC6012 Blogwork 4

PC and Keynes

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February 26, 2008

Directions

Work in your groups, use any resource you deem fit to answer the following questions within 6 days of getting this homework. Post your answers to your blogs.

Question 1

Summarise Godley and Lavoie, chapter 3, pages 99-107, in less than 500 words. Use your summary to answer the following questions

1. Why is the interest rate on bills, B , fixed such that $r = \bar{r}$? What would it mean for the model if r could vary?
2. How does the household make its decisions with regard to cash balances?
3. How is PC different from SIM?

Question 2

Read JM Keynes (rhymes with brains), *The General Theory*, Chapter 13, linked to on the blog. Use Godley, chapter 3, and Keynes, Chapter 13, to answer the following questions.

1. How does Keynes define liquidity preference?
2. Is PC a faithful representation of Keynes' original vision of household decision-making? If so, why? If not, why not?

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