YouTube Title: “"Fear the Boom and Bust" a Hayek vs. Keynes Rap Anthem”
http://www.youtube.com/watch?v=d0nERTFo-Sk
Video Length: 7:33 minutes

Chapter 8: The Business Cycle, p. 154
Topic: Aggregate Supply and Demand, p. 163
Key Terms: Aggregate demand, Keynesian theory, Great Recession, business cycle
Learning Objective 1: The major macro outcomes and their determinants.

Summary
John Maynard Keynes and F. A. Hayek, two of the great economists of the 20th century, come back to life to attend an economics conference on the economic crisis. Before the conference begins, and at the insistence of Lord Keynes, they go out for a night on the town and sing about why there’s a “boom and bust” cycle in modern economies and “good reason to fear it.”

Economic Application
This video can be used to show how competing economic theories explain the business cycle and to provide perspectives on the causes of the Great Recession of 2008-2009. The theories of Keynes and Hayek depicted in the video are captured in their quotes:

“The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist.”
- John Maynard Keynes (The General Theory of Employment, Interest and Money)

“The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design.”
- F. A. Hayek (The Fatal Conceit)

Multiple-Choice Question
All but which ONE of the following are tenets of Keynesianism depicted in the video?

a) “In the long run, we are all dead.” In the long run prices rise proportionately to increases in the money supply, but in the short run they don’t.

b) Malinvestments. Investments of firms being badly allocated due to artificially low cost of credit and an unsustainable increase in money supply, often blamed on a central bank.

c) Liquidity trap. Monetary policy is ineffective because individuals, financial institutions, and other businesses increase liquidity rather than spend and invest due to uncertainty.

d) Sticky wages. Because prices are somewhat rigid, fluctuations in any component of spending—consumption, investment, or government expenditures—cause output to fluctuate.

e) The Paradox of Thrift. The paradox states that if everyone tries to save more money during times of recession, then aggregate demand will fall and will in turn lower total savings in the population because of the decrease in consumption and economic growth.

Discussion Question

According to John Maynard Keynes, what is the cause of economic downturns and what is his prescription for them?