Economic Game Changers: John Maynard Keynes | Lesson Plan

When an economy is in peril, can the government correct it?

Students will understand the basics of Keynesian economics, how it shaped policy in America for more than a decade, and the main arguments against Keynesian thinking.

Learning Objectives:
- Define aggregate demand, sticky wages, and other key terms, and identify the historical period that tested Keynes's theories.
- Evaluate the impact of government spending on the American economy.
- Discuss Keynesian claims and outcomes.
- Analyze a personal scenario in which money is given and come to a conclusion about Keynesian economics.

Key Vocabulary:
- **Roaring Twenties:** The decade of booming prosperity and cultural flourishing in the United States during the 1920s, which ended abruptly with the stock market crash of 1929.
- **Great Depression:** A severe, decade-long economic crisis marked by mass unemployment, business failures, and widespread poverty, triggered by the 1929 stock market crash.
- **Aggregate Demand:** The total demand for finished goods and services in an economy, including consumer spending, business investment, government spending, and net exports.
- **Sticky Wages:** Wages that rise easily but resist falling, even during a downturn, which Keynes argued prevents markets from correcting themselves quickly.
- **Intellectual Elitism:** The belief that people with specialized knowledge or expertise are better equipped than ordinary citizens to make important decisions about complex systems.
- **Keynesian Economics:** The school of economic thought built on Keynes's work, holding that government should actively manage spending—expanding it during downturns and pulling back during booms—to smooth out the business cycle.

Educational Standards: CCRA.R.7, CCRA.R.10, CCRA.W.2, CCRA.W.4, CCRA.W.7, CCRA.SL.1, CCRA.SL.2, CCRA.L.6

Academic Subject Areas: Economics, U.S. History, Civics, Political Philosophy

Scan to watch episode:

What You'll Need

- Video: *Economic Game Changers: John Maynard Keynes—The Government Interventionist* (Watch Here)
- Worksheet: *Economic Game Changers: John Maynard Keynes—The Government Interventionist* (Link Here)
- Whiteboard for writing and a TV / Monitor to show video

Lesson Plan (45 mins.)

Warm-Up: (10 mins.)

Teacher Note on the Historical Context: Before introducing the lesson, briefly set the historical stage for your students. John Maynard Keynes had already made himself internationally famous by correctly predicting, in his 1919 book *The Economic Consequences of the Peace*, that the harsh reparations imposed on Germany after World War I would cripple Europe's economy. Meanwhile, America was experiencing the Roaring Twenties, a decade of booming prosperity that ended abruptly when the stock market crashed in October 1929, plunging the country into the Great Depression. By 1933, roughly one in four American workers was unemployed, and banks failed by the thousands, sending many families into a tailspin of poverty. Keynes argued that waiting for the economy to correct itself asked too much of people suffering in the moment, and he urged governments to spend their way out of the crisis. President Franklin Roosevelt's New Deal put Keynes's ideas into practice, expanding government spending on public works and relief programs, and Keynes himself traveled to Washington to press Roosevelt to spend even more. Yet despite years of New Deal spending, unemployment and poverty levels remained high throughout the 1930s, and the economy did not fully recover until the massive industrial mobilization of World War II in the 1940s.

1. Introduce the concept of Keynesian economics to students: the idea that government should actively manage the economy—spending during hard times and pulling back during good times—to fight downturns and keep growth going. Let students know that today's economist, John Maynard Keynes, believed that when spending slows, the whole economy can slow with it—and that one way to restart economic activity is to increase spending, especially through government spending.
2. Ask students to imagine a pizza place near their school. For this illustration, let's say it's packed most nights of the week as people come in for their favorite pizza, sports award parties, birthday parties, or other community events. Business is booming, so the restaurant provides plenty of work for its employees. But then something happens: people start worrying about money, and the crowds stop coming in.
    - Ask: What happens to the pizza place when fewer people are spending money there?
    - Students should recognize that fewer pizzas sold means less money coming into the business. The owner may cut employees' hours, lay off workers, reduce other expenses, or even close the restaurant if business gets bad enough.
3. Have students do a quick Think-Pair-Share:

    - Now imagine one of those employees normally uses her paycheck to buy clothes, go to the movies, and get her hair cut at other businesses in town. What happens when her hours are cut or she loses her job?
    - Let a couple of pairs share their answers. Guide students toward recognizing that she now has less money to spend, so other businesses may lose some of their sales too.
4. Explain that Keynes looked at the Great Depression and saw something like this happening across an entire economy. People and businesses were spending less. Businesses responded by producing less and employing fewer people. Workers with less income then spent less themselves. Keynes believed this decline in overall spending could keep an economy stuck in a downturn.
5. Return to the pizza shop, but add a new layer:
    - Imagine the local government decides to build a new road. It hires some workers, and those workers now have paychecks. One of them takes his family to our pizza place for dinner. What just happened?
    - The government's spending became income for the worker, and some of the worker's income became revenue for the pizza shop. The restaurant now has more money coming in to pay employees and purchase supplies.
6. Explain that this is the basic idea Keynes wanted governments to use on a much larger scale. When households and businesses cut back during a downturn, he believed the government could increase its own spending to help support overall demand, production, and employment.
7. Ask students to consider:
    - But an economy contains millions of people and businesses making different choices every day. Can government officials really know how much to spend, where to spend it, and when to stop?
    - Tell students that this is one of the major questions they should keep in mind as they watch today's episode.
8. Write each Key Vocabulary term and its definition on the board. Ask students to take notes.
9. Introduce today's *Economic Game Changers* video by explaining that students will see how Keynes developed these ideas during the Great Depression, why he believed government intervention was necessary, and why free-market economists challenged his approach.

Watch and Apply: (25 mins.)

1. Watch the video "*Economic Game Changers: John Maynard Keynes —The Government Interventionist*" as a class.
2. After the video, discuss the following questions:
    - What does *aggregate demand* mean? What did Keynes believe could happen when spending fell across the economy?

    - What does it mean that wages are “sticky”? Why did Keynes think sticky wages could keep unemployment high?
    - What solution did Keynes propose when households and businesses were not spending enough? How was government spending supposed to help?
    - Keynes believed the government should spend more during downturns and pull back during good economic times. Why is the second part of that plan important? What problems could develop if the government increases spending during bad times but does not pull back during good times?
    - Keynes placed considerable confidence in experts to guide the economy. But an economy is made up of millions of people and businesses making individual decisions. What would government officials need to know in order to decide how much to spend, where to spend it, and when to stop?
    - According to the episode, what happened after years of New Deal spending? Did the results match what Keynes expected government intervention to accomplish?
3. Talk through the concepts introduced in the Keynes episode. Emphasize that Keynesian economics became an important justification for government intervention in the economy through spending. Keynes believed that when private spending fell sharply, the government could step in to support aggregate demand, production, and employment. He also expected the government to pull back during stronger economic periods.
   The free-market critique presented in the episode challenges the next step in Keynes's reasoning: **recognizing that aggregate demand affects an economy does not necessarily mean government officials can successfully manage that demand.** Consumer and business behavior is complex and difficult to predict, and governments face their own incentives to continue spending once programs and benefits are established. Use these bullet points to help students understand the main learning points of the lesson:
    - **Aggregate Demand** → The total demand for finished goods and services across an economy, including consumer spending, business investment, government spending, and net exports. Keynes argued that when overall spending falls, businesses may reduce production and employment, causing incomes and spending to fall further.
    - **Sticky Wages** → Wages that may rise more readily than they fall. Keynes argued that during a downturn, wages might not adjust downward quickly enough to restore employment, causing businesses to lay off workers instead.
    - **Intellectual Elitism** → The belief that trained specialists and experts are better equipped to manage complex systems than ordinary folks. The episode connects this outlook to Keynes's confidence that skilled experts could guide the economy more effectively than leaving economic adjustment to individual choices and free market forces.
    - **Keynesian Economics** → The school of economic thought built on Keynes's work, holding that government should increase spending during economic downturns and pull back during stronger economic periods in an effort to stabilize output

and employment. U.S. government macroeconomic policy has largely been influenced by Keynesian economics since the Great Depression. That influence largely shows up in these areas:
        - Deficit spending and fiscal stimulus during recessions.
        - Government spending intended to increase economic activity and employment.
        - Tax cuts or other fiscal measures intended to increase private spending.
        - The general expectation that Washington should “do something” when the economy enters a serious downturn.
    - The **free-market approach**: Allow the decentralized market mechanisms to make the necessary corrections without government intervention.
4. Hand out the worksheet. Students can work independently or in pairs, depending on class needs.

<u>Wrap-Up</u>: (10 mins.)
1. Recap the lesson objectives. Go over the worksheet as a class, reviewing key responses and correcting misunderstandings as needed.
2. Bring the lesson back to the central debate. Ask: Why might increasing government spending sound like a reasonable solution during an economic downturn?
    - What assumptions does that solution make about the government's ability to understand people's behavior and manage the economy?
    - What happens if the government increases spending during downturns but does not pull back when the economy improves?
3. Reinforce that Keynes's influence extended beyond the Great Depression. His ideas helped establish the expectation that government should actively intervene to stabilize a struggling economy—an approach that continues to influence American economic policy. The free-market position challenges whether government officials can successfully manage an economy made up of millions of individual decisions and whether governments can realistically be expected to reduce their intervention once it has expanded.
4. Exit Ticket (Door Check): Ask students to respond to the following question on their worksheets before handing them in:
    - What is the central idea of Keynesian economics?
5. Collect the worksheet as a formative assessment or class participation grade.

Optional Extension Activity
Programs and taxes are often introduced as short-term, "temporary" measures to meet a specific need — but then they become permanent. One well-documented example: the federal telephone excise tax began in 1898 to help fund the Spanish-American War. It was repealed and reinstated several times over the following decades, then locked in for good in 1932. The long-distance portion wasn't finally repealed until 2006, more than a century later.

Have students investigate one or more examples of temporary taxes or tax provisions. For each one, determine:

- Why was it originally enacted?
- What was the original tax rate or amount?
- When was it supposed to expire?
- Was it allowed to expire, extended, changed, or made permanent?
- If it still exists, what purpose does it serve today?
- If possible, determine approximately how much revenue it has generated from its inception to the present—or until it was discontinued.

Tax Examples for Research:

- Federal Telephone Excise Tax — created in 1898 to help finance the Spanish-American War.
- Federal gasoline tax - created in 1932.
- September 11th Security Fee - added to airline tickets in 2001.
- Research and Experimentation Tax Credit - created in 1981.
- Renewable Electricity Production Tax Credit / Wind Production Tax Credit - created in 1992.
- CA Proposition 30 - Temporary Taxes to Fund Education - created in 2012.

Have students summarize their findings in a short write-up or presentation, and include their conclusions about the status of "temporary" taxes.
Debrief (5–8 mins.):

- How many of the "temporary" taxes or tax provisions that we researched actually expired as originally planned? How many were extended, changed, or made permanent?
- Did the measure accomplish the specific purpose for which it was originally created? If that original need ended, what reasons were given for continuing or extending it?
- As a class, look for patterns across the examples. Once a government tax or tax provision is established, what might make it difficult to end?

Central Idea. Keynesian economics begins with the idea that a sharp decline in private spending can prolong an economic downturn. Keynes argued that the government should respond by increasing spending to support demand, production, and employment. The deeper debate is whether government spending actually creates lasting recovery or merely shifts resources and delays private adjustment—and whether governments can realistically withdraw that spending once the crisis has passed.

Don't have time for the full lesson? Quick Activity (10-15 mins.)

Distribute the worksheet and have students complete it as they follow along with the video. Or, have students watch the video at home and use the worksheet as a quick quiz the next day in class.