= Keynesian economic theory comes from British economist J. M Keynes and arose from the analysis of the Great depression in the 1930's. The differences between

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Keynesian theory and classical economic theory affect govt policies, among other things. Below we make a presentation of how Keynesian economics is separated from the classical economics :-

(i) Keynes has given the greater importance to the short-period equilibrium while the classical writers stressed long period equilibrium. Keynesian assumption of short-period has proved more helpful to the modern economists in studying in the modern context.

(ii) Shumpeter holds that the attack on savings and more emphasis on spending are two revolutionary phenomena in Keynesian economics as compared to classical economics.

(iii) As against the classical analysis of wage-cutting and employment, Keynesian approach to wages and employment is revolutionary and realistic.

(iv) Keynes has not considered the classical concept of full employment. He argued that in practice the full employment was not possible, but there might be an equilibrium before the level of full employment which he called under-employment equilibrium.

(v) Unlike the classical economists, Keynes seems to be more practical and effective. His approach is rather institutional that has taken into account various economic phenomena explaining high rates of interest, inadequate supply of money, over-saving, uncertainities etc.

(vi) As against Micro-economics of classical economists Keynes emphasised Macro-economics dealing with the broad national aggregates.

(vii) Keynes has got success in integrating the theories of money, interest and employment with the theory of income than had ever been done before.

(viii) The theory of classical economics is that free markets will regulate themselves without interference by people are the govt. Keynesian theory says this is exactly when govt. intervention makes sense. If people are not spending, then the govt has to step in and fill the void.

(ix) classical economics wants a market that is free to find its own level of supply and demand. They believe that prices should fluctuate based on the wants of consumers. Keynesians believe that prices should be rigid and govt. should try to maintain price stability.

(x) The classicals said that there exists in the economy a state of perfect competition But Keynes argued that perfect competition is an myth.