A. As You Read
As you read Section 2, answer the following questions.

1. What failure of classical economics did the Great Depression highlight? ____________

2. How did John Maynard Keynes explain the continuation of the Great Depression? ____________

3. (a) According to Keynes, how could the Depression-era government make up for the drop in private spending? ____________
   (b) What did Keynes say the result would be? ____________

4. (a) What economic data did Keynes say the federal government should track? ____________
   (b) For what purpose? ____________

5. Why did Keynesian economics lose popularity in the 1960s and 1970s? ____________

6. What is a stable economy? ____________

7. When national income is low, how do taxes and government transfer payments help stabilize the economy? ____________

8. According to supply-side economics and the Laffer curve, how do higher tax rates affect the economy? ____________

9. What argument lies at the heart of supply-side economics? ____________

10. How did President Kennedy propose to increase demand? ____________

B. Reviewing Key Terms
Use a key term to complete each sentence.

11. An economy sustains maximum output for a period of time when it operates at ____________.

12. The idea that in a free market, people act in their own self-interest, causing prices to rise or fall so that supply and demand will always return to equilibrium is the thinking in ____________.

13. Taxes and transfer payments act as ____________.

14. The idea that every dollar change in fiscal policy creates a greater than one dollar change in the economy explains the ____________.