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Keynesian models of deflation and depression revisited

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Abstract

This paper extends Tobin's [Tobin, J., 1975. Keynesian models of recession and depression. *American Economic Review* 65, 195–202] Keynesian analysis of deflation to include a range of additional channels through which deflation exacerbates Keynesian unemployment. The paper provides further theoretical reasons why downward price level adjustment may not solve the Keynesian problem. These arguments challenge the received wisdom that Keynes's™ *General Theory* is a special case resting on downwardly rigid prices and nominal wages. This conventional wisdom has led many economists to recommend policies promoting downward flexibility. These policies have created an environment in which deflation is more likely, giving new relevance to Keynesian analysis of deflation.



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JEL classification

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