

**Guide for grading of student papers, History of Economic Thought, Winter 2012-13, Exam 23-25 January 2013, 48 hours take-home paper**

A top-level paper should contain:

Keynes' idea about animal spirits is discussed: not the same as mathematical expectations, but not necessarily irrational psychology either. Their role in the determination of investment via the marginal efficiency of capital is mentioned. It is explained how Keynes theory works in terms of expectations as opposed to the neoclassical theory's static consideration or of the steady state.

Keynes' idea about expectations is based on his concept of uncertainty, and this is discussed, and the paper then relates this to his explanation for liquidity preference through a time preference. The rate of interest becomes a reward for not hoarding as opposed to the neoclassical theory, where it reflects the price of capital that equilibrates saving and investment.

The paper explains how liquidity preference is a new concept, which in Keynes determines the choice between resources held in the form of money or in some form of investment and how this problem has been ignored by classical and neoclassical theory. In Keynes the rate of interest equilibrates the demand for resources in money and the available supply of money (cash). It reflects a monetary economy as opposed to the classical and neoclassical real/nominal dichotomy.

Wicksell's theory of the natural or normal rate of interest captures the role of the banking sector in the macro economy through the explanation of inflation. The paper presents Wicksell's definition of the natural rate of interest and relates it to classical and neoclassical quantity theory of money with its emphasis on the transactions motive for money demand. This is compared to Keynes' idea about uncertainty and the speculative and precautionary motive for holding of money that works in current time given expectations regarding the future.