Q. What are the basic assumptions of Keynesian Theory:

1. **Existence of perfect competition**: The Keynesian theory of income and employment depends upon the existence of perfect competition. In a free market economy, the working of market forces of demand and supply determines the equilibrium position of income and employment.
2. **Closed economy**: Closed economic system is another important assumption of Keynesian theory. The existence of closed economy represents that there does not arise any trade relationship of the domestic country with the rest of the world countries.
3. **Existence of short period**: The entire Keynesian theory is given due importance only in the short run. In Keynesian analysis, tastes, habits, preferences, customs etc. all are constant. Keynes even himself has argued that in the long run, we all are dead.
4. **Function of money**: Keynes assumes that money performs not only as a medium of exchange but also performs as a store of value function of money. People create demand for money in the form of cash for keeping value of commodity in monetary forms.
5. **Laissez faire policy**: Initially, Keynes was not in favor of government intervention in the economy. But finally, slightest level of government intervention was advocated by him. It is basically due to wiping out the deficiencies of private investment and curtailment of inflationary rate in the economy.
6. **Diminishing marginal productivity**: Keynes assumes the existence of diminishing marginal productivity of the factors of production. It implies that when more and more factors of production are employed in production then additional productivity of each factor diminishes gradually. As a result, the total product increases but a decreasing rate.
7. **Importance of investment**: Keynes considers investment as a very important determinant of employment. According to Keynes, investment is meant only real investment which an addition to real capital assets as well as the accumulation of wealth by the society.