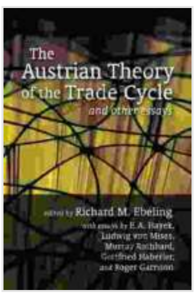
The Austrian Theory of the Trade Cycle

The Austrian theory of the trade cycle is a macroeconomic theory that attempts to explain the causes of economic fluctuations. The theory argues that the trade cycle is caused by fluctuations in the supply of money, and that these fluctuations are caused by central banks. The theory has been criticized for its lack of empirical support and for its inability to explain the Great Depression.



The Austrian Theory of the Trade Cycle and Other Essays (LvMI) by Murray N. Rothbard

4.7 out of 5

Language	: English
File size	: 635 KB
Text-to-Speech	: Enabled
Screen Reader	: Supported
Enhanced typesetting	: Enabled
Word Wise	: Enabled
Print length	: 130 pages
Lending	: Enabled

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The Austrian Theory of the Trade Cycle

The Austrian theory of the trade cycle was first developed by Ludwig von Mises in his 1912 book, "The Theory of Money and Credit." Mises argued that the trade cycle is caused by central banks' expansion of the money supply. This expansion of the money supply leads to an increase in investment, which in turn leads to an increase in production. However, this increase in production cannot be sustained, and eventually leads to a fall in prices and a decrease in production.

Mises's theory has been elaborated upon by other Austrian economists, including Friedrich Hayek and Murray Rothbard. Hayek argued that the trade cycle is caused by central banks' attempts to maintain a stable price level. This attempt to maintain a stable price level leads to fluctuations in the money supply, which in turn leads to fluctuations in the trade cycle.

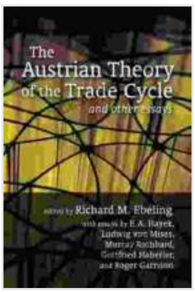
Rothbard argued that the trade cycle is caused by central banks' creation of artificial credit. This artificial credit leads to an increase in investment, which in turn leads to an increase in production. However, this increase in production cannot be sustained, and eventually leads to a fall in prices and a decrease in production.

Criticisms of the Austrian Theory of the Trade Cycle

The Austrian theory of the trade cycle has been criticized for its lack of empirical support. Empirical studies have found no evidence to support the theory's claim that the trade cycle is caused by fluctuations in the money supply. In fact, some studies have found that the trade cycle is actually caused by other factors, such as changes in government spending or in the demand for goods and services.

The Austrian theory of the trade cycle has also been criticized for its inability to explain the Great Depression. The Great Depression was a period of severe economic decline that began in 1929 and lasted until the late 1930s. The Austrian theory of the trade cycle cannot explain why the Great Depression was so severe or why it lasted so long.

The Austrian theory of the trade cycle is a controversial macroeconomic theory. The theory has been criticized for its lack of empirical support and for its inability to explain the Great Depression. However, the theory remains a popular explanation for economic fluctuations among some economists.



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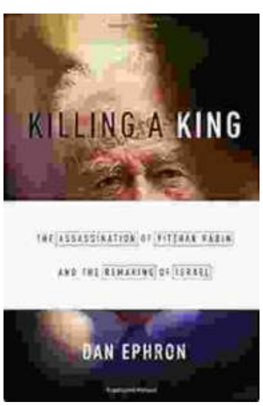

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