

# Interest and Prices - A Study of the Causes Regulating the Value of Money

*Knut. Wicksell*

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**Knut. Wicksell : Interest and Prices - A Study of the Causes Regulating the Value of Money** before purchasing it in order to gage whether or not it would be worth my time, and all praised Interest and Prices - A Study of the Causes Regulating the Value of Money:

1 of 1 people found the following review helpful. Essential theory on the effects of interest rate manipulation By Derek Zweig It was refreshing to read the original theory of the natural rate. Wicksell's work is ingenious, a must read for any aspiring economist or anyone wishing to better understand one of the theoretical foundations on effects of interest rate fluctuations and the interdependence of interest rates and prices. Once the reader grasps the concept of the natural rate, it is found to be logical and for the most part consistent. There were some portions, primarily regarding the effects of improved productivity on the natural rate of interest, which are difficult to follow with consistent logic; though I'm sure it was my mistaken ability and not the author's. The introduction by Bertil Ohlin does justice to the author and summarizes the thesis well. The author does a solid job of explaining the ability of price levels (absolute, not relative) to rise and fall despite interest rates being such that savings and investment are in equilibrium. However, these movements are only temporary and based on current supply/demand conditions, whereas long-term movements depend on the level of money rates relative to the natural rate (which is for the most part determined by the level of real capital or savings). The author dedicates some time attempting to support his theory empirically, but often admits that his attempts must be futile as the natural rate is nearly impossible to measure ex-post. The end of the book has some discussion on how the natural rates of different nations will find equilibrium in a global economy with free trade, as well as a few pages on bimetallism. However, these are not focal points. The very end is almost comical as the author talks about a global banking cooperative which voluntarily sacrifices competition in hopes of maintaining price levels. A nice thought, but obviously not practical. Despite this, the original idea alone is worth well more than the cost of the book. I will also note that many famous works by economists whom followed Wicksell make common reference to the idea of the natural rate.

INTEREST AND PRICES - A STUDY OF THE CAUSES REGULATING THE VALUE OF MONEY by KNUT WICKSELL. Originally published in 1936 .Contents include: INTRODUCTION BY PROFESSOR BERTH, OHLIN . . vii AUTHORS PREFACE ..... xxiii CHAPTER 1 INTRODUCTORY ..... 1 CHAPTER 2 PURCHASING POWER OF MONEY AND AVERAGE PRICES . 7 CHAPTER 3 RELATIVE PRICES AND MONEY PRICES . . .18 CHAPTER 4 THE SO-CALLED COST OF PRODUCTION THEORY OF MONEY 29 CHAPTER 5 THE QUANTITY THEORY AND ITS OPPONENTS . .38 v vi INTEREST AND PRICES PART I CHAPTER 6 THE VELOCITY OF CIRCULATION OF MONEY A. A Pure Cash Economy . . . .51 B. Simple Credit ..... 59 C. An Organised Credit Economy . . . .62 CHAPTER 7 THE RATE OF INTEREST AS REGULATOR OF COMMODITY PRICES A. The Classical Theory and the School of Too Much . . 81 B. Simplest Hypothesis. Variations of the Rate of Interest when the Market Situation Remains otherwise Unaltered 87 CHAPTER 8 THE NATURAL RATE OF INTEREST ON CAPITAL AND THE RATE OF INTEREST ON LOANS . . . .102 CHAPTER 9 SYSTEMATIC EXPOSITION OF THE THEORY . A. The Causes which Determine the Natural Rate of Interest on Capital ..... 122 B. The Use of Money . . . . .134 CHAPTER 10 INTERNATIONAL PRICE RELATIONSHIPS . . .157 CHAPTER 11 ACTUAL PRICE MOVEMENTS IN THE LIGHT OF THE PRECEDING THEORY . . . . .165 CHAPTER 12 PRACTICAL PROPOSALS FOR THE STABILISATION OF THE VALUE OF MONEY . . . . .178 APPENDIX THE MONETARY PROBLEM OF THE SCANDINAVIAN COUNTRIES ..... 197. INTRODUCTION: To judge the character and importance of Knut Wicksell's monetary doctrines, it is necessary to view them against the background of the monetary controversy of the late nineties. For some decades the organisation of an international gold standard had been the outstanding problem. Hardly had this organisation won its victory in the seventies, when its position was threatened by the continued fall in wholesale prices. A violent propaganda for bimetallism set in almost everywhere. The character, working, advantages, and disadvantages of this system naturally became the central topic of discussion in the monetary field. The old debate between the currency and the banking schools had died out and the latter undoubtedly held the field. The quantity theory of money was discredited, even in the Anglo-Saxon countries. Most writers agreed that if credits were granted on adequate security in accordance with sound banking principles, the supply of means of payment could not exceed the requirements of the market. There was no discussion in that connection of the level of bank rate. Two things seem to have caused Wicksell to adopt an entirely different attitude to monetary problems. First of all, he was a close student and admirer of the English classical school of economists, above all of Ricardo. To Wicksell's mathematical mind the quantity theory of money, as presented by Ricardo, made a much stronger appeal than the vague generalisations of the current banking discussions, which side-stepped the question Why do prices rise or fall that Wicksell at an early stage came to regard as the main problem of monetary theory...