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A Discussion of the Main Tenets of Austrian Business Cycle Theory

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The aim of this paper is to critically assess Austrian Business Cycle (ABC) theory. Its foundation was laid in Theory of Money and Credit (1912) by Ludwig von Mises, which F. A. Hayek elaborated in more detail later on in his Prices and Production (1935). We argue that assumed coordination between consumers and producers, that is, the case, in which the time preference of consumers and investment plans of producers would be in unison, does not guarantee that the structure of production will be in equilibrium; even in an economy with a constant money supply, i.e. an economy with one hundred per cent reserve banking. We show there may be real factors that might prevent the structure of production from being in equilibrium even though the time preference of consumers might have been in unison, in some point in time, with investment plans of producers. Finally, we shall argue the Hayek's condition, which states that increases in the money supply have to increase at "a constantly increasing rate", does not hold if one should take into account the technological progress.

Keywords: [Austrian business cycle theory](#), [Stability of consumers' time preference](#), [Technical progress](#)

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