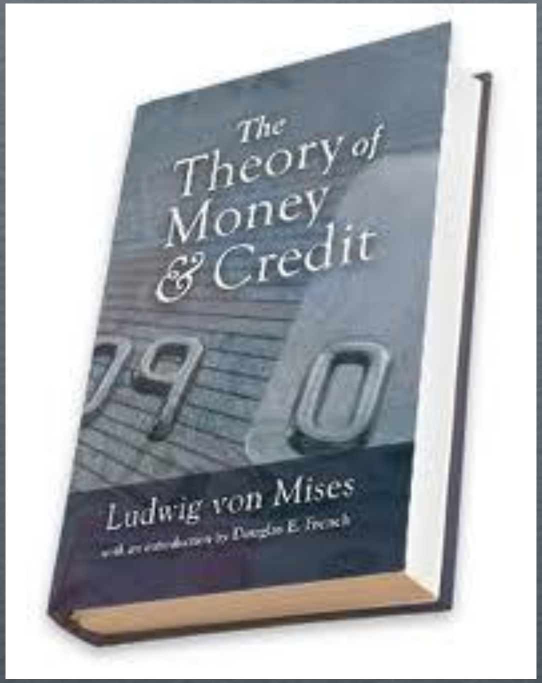
Mises on Money & Banking



February 22, 2012

Lecture 4: The Value of Money

The Value of Money

I. Background on Theory of Value

A. Pig vs. Tomato Seed

B. Four-fold Classification

II. Apply Theory of Value to Money

A. Two Formulations

B. Task of Economist

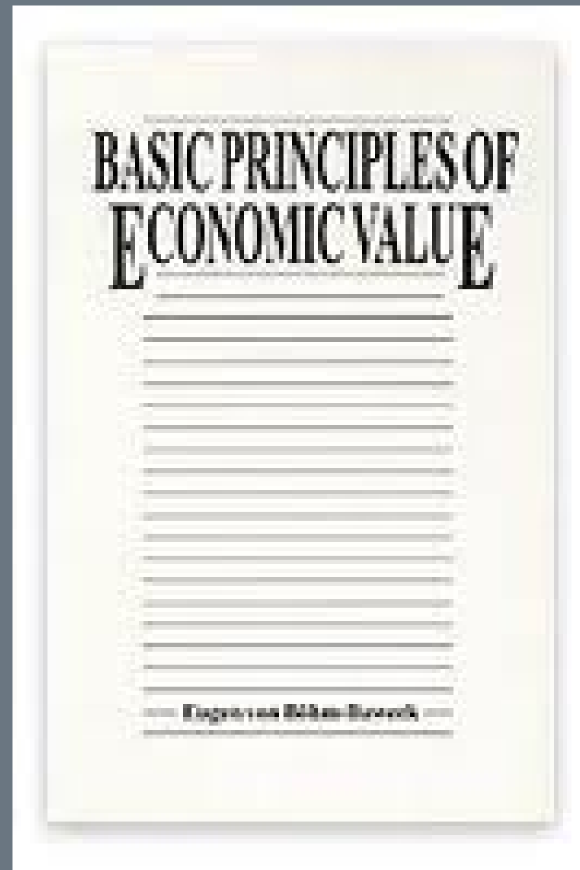
C. Terminology

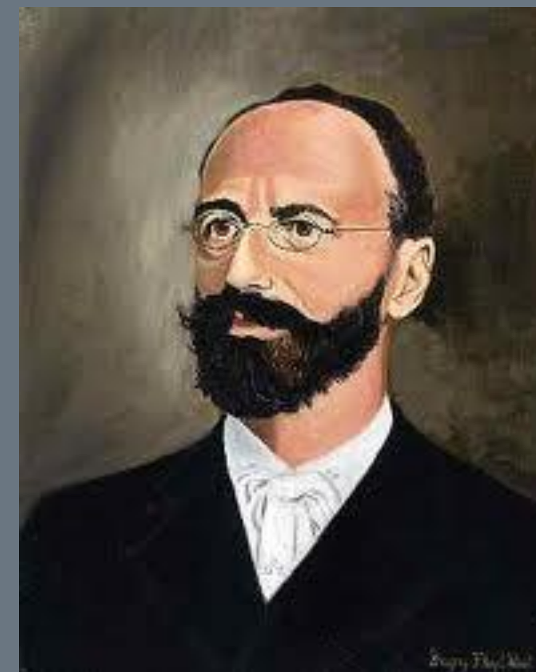
III. Problems Involved

A. A Bad Solution

B. Circular Argument?

IV. Regression Theorem



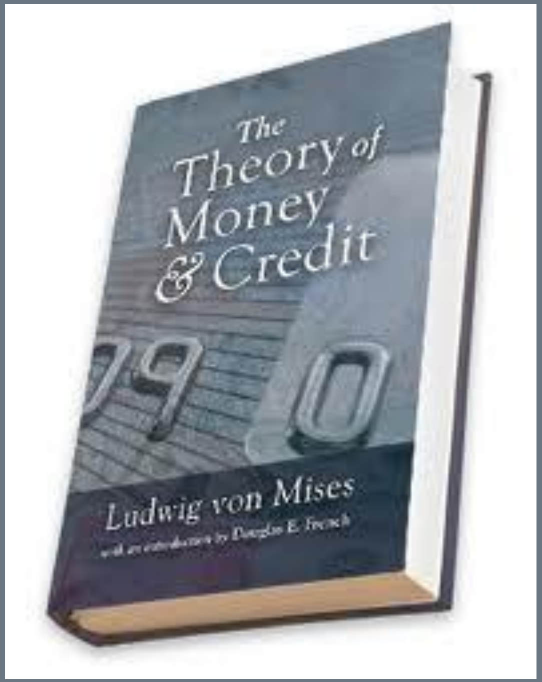


I. Background on Subjective Value Theory

A. Pig vs. Tomato Seed

	Subjective	Objective
Use-Value	Seeds for Vegetarians, else Pig (probably)	Pig→Bacon Seeds→Tomatoes
Exchange-Value	Pig Preferred by Both (probably)	Pig >> Seeds (probably)

B. 4-Fold Classification



II. Apply Subjective Value Theory to Money

"In the case of money, subjective use-value and subjective exchange-value coincide" (97)

or

"[A]s far as the individual is concerned, money has no use-value at all, but only subjective exchange-value." (98)

A. Two Formulations

“It is not the task of the economist, but of the natural scientist, to explain why corn is useful to man and valued by him; but it is the task of the economist alone to explain the utility of money. Consideration of the subjective value of money without discussion of its objective exchange-value is impossible.” (98)

B. Task of Economist

Objective-exchange value of money (aka purchasing power) versus price of money…

C. Terminology

“In the theory of the value of commodities it is not necessary at first to pay any attention to objective exchange-value….[Yet since] money, in contrast to other goods, can fulfill its economic function only if it possesses objective exchange-value, an investigation into its subjective value demands an investigation first into this objective exchange-value. In other words, the theory of the value of money leads us back through subjective exchange-value to objective exchange-value.” (102)

III. Problems Involved

A. A Bad Solution

"To assert that the value of money is based on the non-monetary employment of its material is to eliminate the real problem altogether. Not only have we to explain the possibility of fiat money…we must also answer the question, whether the possibility of a monetary employment of the commodity-money material affects its utility and consequently its value." (104)

"[I]n the case of credit money the claims used as money have similarly a different exchange-value from other claims of the same kind that are not used as money. The hundred-gulden notes which circulated as money in Austria-Hungary before the reform of the currency had a higher exchange-value than, say, a government security with a nominal value of a hundred gulden, notwithstanding the fact that the latter bore interest and the former did not." (105)

→ E.g. of Bad Solution

Economists had difficulty applying subjectivist approach to money. Weren’t we explaining purchasing power of money by reference to…the purchasing power of money?!

B. Circular Argument?

IV. Regression Theorem

- → Refer to my study guide! (Chapter 8)
- → Purchasing power *today* based on today's expectations of purchasing power *tomorrow.*
- → But today's expectations based on observed purchasing power *yesterday*.
- → Replace circular argument with infinite regress?
- → No, because we can trace back to pre-monetary situation, at which all economists know how to apply subjective value theory.