

Contents

1	Premises and an Overview	1
2	Myros and Other Concepts and Definitions	7
2.1	Myros.....	8
2.2	Myros Recovery Charges	11
2.3	Human and Nonhuman Capital	12
3	The Macroeconomic Framework.....	17
3.1	An Overview	17
3.2	Constraints (or “Conservation Laws”) Imposed by the Pool of Fluid Capital	22
3.3	The Determination of Asset Values	25
3.4	Aggregate Demand and Supply.....	28
3.5	Macroeconomic Equilibrium	29
4	Interest and Money	31
4.1	Factors Making for the Existence of Interest.....	32
4.2	Determination of Money and Natural Rates of Interest.....	33
4.3	A World with Fiat Money	41
4.4	The Concept of Velocity and the Demand for Money	43
4.5	Power of the Monetary Authority	45
4.6	The Commercial Paper Market	46
4.7	Some Notes on Monetary Policy	47
5	Production and Investment	49
5.1	Capital and Production.....	49
5.2	From Production to Investment.....	52
5.3	Roles of the Money and Natural Rates of Interest	62
5.4	Financing of Investment: An Illustration	62

6	General Price Level and Inflation	65
6.1	Defining the General Price Level.....	65
6.2	Problems Arising from Excessive Monetization of Assets	72
6.3	The General Price Level and the Natural Rate of Interest	75
6.4	Equilibrium in the Natural and Money Rates of Interest	76
7	Capital Values, Wealth, and Related Topics	79
7.1	The Aggregate Wealth of an Economy.....	79
7.2	Money as Wealth and Real-Balance Effects.....	80
7.3	Some Implications of Old Masters as a Store of Value	81
7.4	Taxation of Capital Gains	83
7.5	Forced Saving and Investment	85
7.6	More on Excess Monetization of Assets.....	87
7.7	Loan Defaults and the Stock of Money.....	88
7.8	Crowding-Out	89
7.9	Burden of the National Debt	92
7.10	Ricardian Equivalence.....	93
7.11	Commodity Money	94
7.12	Fluid Capital and the Gold Standard	95
7.13	Demonetization and Monetization of Economies.....	98
7.14	Economic Growth with Deflation: The Period 1873–1896 in the USA	101
8	Macroeconomic Equilibrium and Employment	103
9	Capital Theory in Perspective	113
9.1	Schumpeter	113
9.2	Keynes	116
9.3	Irving Fisher	117
9.4	Böhm-Bawerk	118
9.5	Jevons and Wicksell	119
9.6	Capital as Embedded (or Stored) Labor.....	120
9.7	Capital Theory as the Economics of Time	121
9.8	Capital Accounting	123
9.9	Capital and Nonrenewable Natural Resources	126
10	Opportunity and Sunk Costs	129
10.1	Opportunity Costs	129
10.2	The Measurement of Unit Incremental Cost.....	131
10.3	Sunk Costs.....	132
11	Trade, Transfers, and Monetary Overhangs.....	135
11.1	Trade and Exchange Rates	135
11.2	Monetary Overhangs and Capital Levies	137

11.3	Wealth Transfers and Monetary Overhangs: A Stylized Analysis.....	139
11.4	Policies for Eliminating a Monetary Overhang: The Case of German Reunification	146
11.5	The German Reunification: An Assessment	150
12	Questions Related to Consumption and Saving.....	153
12.1	The Macroeconomics of Retirement Saving and Consumption .	153
12.2	Questions Related to Position Goods.....	155
12.3	Questions Related to Engel Curves and Income Elasticities.....	157
12.4	The Hierarchical Nature of the Pool of Fluid Capital.....	159
13	Questions Related to Economic Growth	161
13.1	The General Mechanics of Economic Growth.....	161
13.2	Some Basic Truths Concerning Economic Development.....	163
13.3	Keynes and Economic Bliss.....	163
13.4	The Endogenous Nature of Economic Growth.....	164
13.5	The Role of Technological Change	165
13.6	Investment in Research and Development	166
13.7	Economic Growth in Reverse: Large-Scale Disasters in Low-Income Economies.....	167
13.8	Economic Growth and Different Stages of Development	168
14	Themes and Counterthemes: Fluid Capital in Retrospect	171
	Postscript	247
15	Background and Tools for Understanding and Dealing with Recurrent Financial Crises	181
15.1	The Impact of Uncertainty on Economic Activity	182
15.2	Uncertainty and the Pace of Investment.....	185
15.3	Hedge, Speculative, and Ponzi Financing	188
15.4	The Many Burdens of Quasi-Rents.....	190
15.5	The Banking Principle, Banking Disease, and Financial Panics	193
15.6	Types of Investors	195
15.7	Differences Between Goods Markets and Asset Markets.....	196
15.8	The Floor for Asset Values	197
15.9	Asset Prices in a Financial Panic: the Role of a Lender-of-Last-Resort	198
15.10	The Effect of Financial Panics on the Real Economy and the Role of Fiscal Policy	201
15.11	Conclusion.....	203

16 Booms, Busts, and Financial Panics: The Financial Meltdown of 2007–2009	205
16.1 The Anatomy of Financial Panics	205
16.1.1 Emergence from Recession	205
16.1.2 Awakening of Asset Markets	206
16.1.3 Some Signs of Danger	207
16.1.4 Casinos with Banks	208
16.1.5 Getting Ready for a Fall	208
16.1.6 Onset of a Panic	210
16.2 The Fragility of Financial Markets	210
16.3 A Digression on Uncertainty, Confidence, and Trust	213
16.4 Preludes to Panic	215
16.4.1 The Layering of Financial Intermediaries	216
16.4.2 Lessening of Borrower and Lender's Risk	217
16.4.3 Spiking of Expectations	218
16.4.4 Asset Prices Outpacing the Increase in the Pool of Fluid Capital	218
16.4.5 Explosion of Derivatives Trading	219
16.4.6 Activities of Hedge Funds	220
16.4.7 Globalization of Finance	220
16.5 The Uniqueness of Banks and the Lender-of-Last-Resort	221
16.6 Some Observations on the Financial Meltdown of 2007–2009	222
16.7 Lessons for Reform	226
16.8 Summary and Wrap-Up	228
Appendix A	233
Appendix B	241
Appendix C	247
Appendix D	255
Appendix E	257
Bibliography	265
Index	271

<http://www.springer.com/978-0-387-98168-0>

Capital, Accumulation, and Money

An Integration of Capital, Growth, and Monetary Theory

Taylor, L.D.

2010, XXVII, 278 p., Hardcover

ISBN: 978-0-387-98168-0