An Introduction to Austrian Economics

Thinking about economics through the lens of individualism, subjective value and dynamic markets, and focusing on the unique contributions of the Austrian school and its understanding of money and the business cycle.

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I. **METHODOLOGICAL INDIVIDUALISM** (13 syllables)

A. Emphasis on the individual as the source of human action

B. Skeptical of the "macro" approach, aggregates, collective analysis

C. All economic phenomena must be viewed as the consequence of micro-units the individual)

D. More rigorous in methodological individualism than any other

II. SUBJECTIVISM

A. In 1870s with Carl Menger, this replaced the old cost of production and labor theories of value

B. Emphasis on the way man sees things rather than the way these things are in and of themselves (no "intrinsic" value)

C. Value is "attached" – even costs are subjective because they depend on the value of sacrificed opportunities

D. Value cannot be measured or quantified; money is not a "measure" of value

III. MARGINALISM

A. Men rank their values ordinally, not cardinally (aunt vs uncle)

B. Bread vs diamonds paradox – Law of Diminishing Marginal Utility

IV. DYNAMIC ANALYSIS

A. Emphasizes the role of the entrepreneur ($10 bills whizzing by)

B. Emphasizes competition as a process, a process of discovery

C. Economy only *tends* toward equilibrium, which can never be reached because of constant change and dynamism

D. Mathematics is easily overdone in economics, a pretense to precision that we crave and can achieve in the physical sciences – supply & demand graph and dogs on fences

V. MONEY IS A MARKET PHENOMENON

A. Originated in the market, not by decree

B. Direct exchange (barter) to indirect exchange

VI. MALINVESTMENT THEORY OF THE BUSINESS CYCLE

A. Three common features of every business cycle: previous inflation of money & credit; sudden, general cluster of business errors; wider fluctuation of capital goods than consumer goods industries

B. Drugs or alcohol analogy