Econ 6E Michael Salemi

The Theory of Interest by Irving Fisher
Discussion Questions

I have included Chapter I of Fisher because it provides important background for the other chapters. I do not intend for us to discuss Chapter I except as it relates to the later chapters.

Chapters II-III, pp 36-58.

1. What, according to Fisher, is the relationship between money interest and real interest?

    Why does Fisher describe the rate of interest as a "...premium on present goods over future goods of the same kind." (p. 36)?

    What, according to Fisher, is to be gained by describing the rate of interest in this way.

    What, according to Fisher, is the relationship among foresight, money interest, and real interest?

    Suppose a nineteenth century business person borrowed $10,000. each from two different persons. The first person was promised repayment in gold coins; the second, in silver coins. What, according to Fisher, will be the difference in interest measured in gold and in silver?

2. According to Fisher, does the charging of interest take unfair advantage of the debtor?

    How would Fisher answer a Marxian who claims that to charge interest is to withhold from labor a portion of what labor produces?

3. What, according to Fisher, is wrong with the theory that states that the real rate of interest must equal in the long run the rate of productivity of the capital stock?

    What does Fisher mean when he says (p. 55) that the "...value of the orchard is not independent of the value of its crops...."? What is the relevance of this observation to the productivity theory of the rate of interest?

Chapters IV-V, pp.61-124.

4. What, according to Fisher, is the relationship between human impatience and the rate of interest?

    What does Fisher mean by "human impatience"?

    Why, according to Fisher, is there a relationship between the time shape of the income stream and human impatience? Between the uncertainty of the income stream and human impatience?

    What effect does human impatience have on the real rate of interest? On the money rate of interest?

    If all humans are impatience, can the rate of interest in an economy ever be negative? Why?

5. In what sense, according to Fisher, does a market for loans produce coordination among individuals who may have very different degrees of impatience?

    What, again, does Fisher mean by human impatience? What determines the degree of human impatience of an individual?

    What does Fisher mean when he describes on page 105 an individual whose rate of preference is ten per cent?

    How do charts five and six illustrate the coordination of individuals with different degrees of impatience? What profile on page 109 best describes the typical UNC undergraduate? Why?

6. Thomas Aquinas: "Interest is morally wrong because it is payment for time which is God's alone to give and take away."

    Irving Fisher: "Lighten up Tom. No law, moral or of any other sort, can eradicate the collection of interest."

    How would Fisher explain his response to Thomas Aquinas?

7. What, according to Fisher, determines the rate of interest in the first approximation?

    In what sense is the marginal principle of interest a maximization principle?

    What is the marginal principle?
    What is being maximized?

8. In your view, is does Fisher's first approximation describe a theory that is relevant in today's modern economy? Why or why not?