

# Feterian\* Pure Time Preference Theory

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Individuals with positive time preference prefer a satisfaction in the present more than the same satisfaction in the future

P R E S E N T

F U T U R E

Time Preference **not necessarily equal** to time valuation

Present Good

Time valuation can change

Future Good

Present-future comparisons of **money** allows for avoiding time-valuation changes attached to specific goods.

Under initial assumptions, next year's money unit has same purchasing power as this year.

e.g. for same good: Ice this winter less valued than ice next summer. Valuation of a good can change over time.

(Neutral=0) Hence Time Preference is **equal** to time valuation

MONEY

Time valuation unchanged

MONEY

Money Value of a Collection of Goods

Time valuation unchanged

Money Value of a Collection of Goods

## POSITIVE TIME PREFERENCE

This periods' valuations of satisfactions are

greater in present period, less next period

But **money** valuations of goods will increase with the passage of time

Social Time Preference is Positive and Causes the Natural Rate of Interest