# Feterian* Pure Time Preference Theory

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(revised)

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

P R E S E N T | F U T U R E

## TIME VALUATION

Present Good → Time valuation can change → Future Good

Present-future comparisons of **money** allow for avoiding time-valuation changes attached to specific goods. Positive or negative time valuation among goods tends to cancel in the aggregate.

Under initial assumptions, next year's money unit has same purchasing power as this year (no predictable change in the state of the economy).

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

## TIME PREFERENCE

MONEY → Time valuation unchanged → MONEY

**POSITIVE TIME PREFERENCE**

This periods' valuations of satisfactions are

greater in present period, less next period

Positive interest tends to reflect increased aggregate **money** valuations of goods with the passage of time

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

Interest is the **time-price** of money, not the **price** of money, which is related to its purchasing power.
The visible (nominal) loan rate is the basic rate, or pure rate plus anticipated risk and price inflation premiums.
The Basic rate sets the extent of round-about investment and prices of capital goods (capitalizes productive returns).
Time preferences capitalize all wealth to form a price structure antecedent to loan market rate.
(Austrian capitalization theory of interest—Frank A. Fetter)