TABLE VII-1
Two Contrasting Approaches to Economics

The Austrian School	*Macroeconomists* (*Monetarists and Keynesians*)
1. *Time* plays an essential role	1. The influence of time is ignored
2. "Capital" is viewed as a *heterogeneous* set of capital goods which receive constant wear and must be *replaced*	2. Capital is viewed as a *homogeneous* fund which *reproduces* on its own
3. The production process is *dynamic* and *is divided into multiple, vertical* stages	3. There is a notion of a *one-dimensional, horizontal* productive structure in *equilibrium* (circular flow of income)
4. Money affects the process by modifying the structure of *relative* prices	4. Money affects the *general* level of prices. Changes in relative prices are not considered
5. Macroeconomic phenomena are explained in *microeconomic* terms (variations in relative prices)	5. *Macroeconomic aggregates* prevent the analysis of underlying microeconomic factors (malinvestment)
6. Austrians hold a theory on the *endogenous* causes of economic crises which explains their *recurrent* nature (corrupt institutions: fractional-reserve banking and artificial credit expansion)	6. An endogenous theory of cycles is lacking. Crises have *exogenous* causes (psychological, technological and/or errors in monetary policy)
7. Austrians hold an elaborate *capital theory* (structure of production)	7. A theory of capital is lacking
8. *Saving* plays a decisive role. It causes a *longitudinal* change in the productive structure and determines the sort of technology to be used	8. Saving is *not* important. Capital reproduces *laterally* (more of the same), and the *production function* is fixed and is determined by the state of technology
9. There is an *inverse* relationship between the demand for capital goods and the demand for consumer goods. All investment requires saving and thus a temporary relative drop in consumption	9. The demand for capital goods is *directly* related to the demand for consumer goods
10. It is assumed that production costs are *subjective* and not predetermined	10. Production costs are *objective*, real and predetermined
11. Market prices tend to determine production costs, not vice versa	11. Historical costs of production tend to determine market prices
12. The interest rate is a market price determined by subjective valuations of time preference. The interest rate is used to arrive at the present value (toward which the market price of each capital good tends) by discounting its expected future flow of returns	12. The interest rate tends to be determined by the marginal productivity or efficiency of capital, understood as the internal rate of discount at which the expected flow of returns is equal to the historical cost of producing each capital good (which is considered invariable and predetermined). The short-term interest rate is believed to have a predominantly monetary origin