



Hayek's Contributions to Economics

Speaker: Roger W. Garrison, Auburn University

Introduction: Tony Giddens, Director, LSE





Friedrich A. Hayek

Born: May 8, 1899

**Studied Economics
University of Vienna**

**London School of Economics
(1931-1950)**

**University of Chicago
(1950-1962)**

**University of Freiburg
(1962-1967)**

Nobel Prize (1974)

Died: March 23, 1992



Friedrich A. Hayek

Author of *Prices and Production* (1931, 1935)

**Nobel Prize in Economics
1974**

--for pioneering work in the theory of money and economic fluctuations and for penetrating analysis of the interdependence of economic, social, and institutional phenomena.



Ludwig von Mises

1881 - 1973

"The period of production must be of such a length that exactly the whole available subsistence fund is necessary on the one hand and sufficient on the other for paying the wages of the labourers throughout the duration of the productive process."

***The Theory of Money and Credit*
(1912)**



“Booms have always appeared with a great increase in investment, a large part of which proved to be erroneous, mistaken. That, of course, suggests that a supply of capital was made apparent which wasn’t actually existing. The whole combination of a stimulus to invest on a large scale followed by a period of acute scarcity of capital is consistent with the idea that there has been a misdirection due to monetary influences.

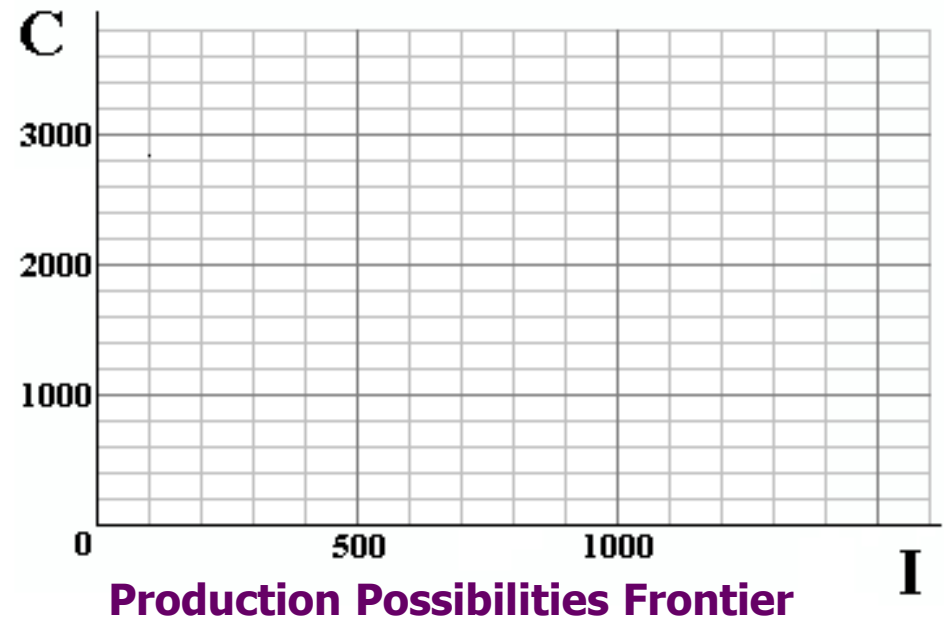
“And that general schema, I still believe, is correct.”

--from an interview conducted by Jack High as part of the UCLA Oral History Program (1978).



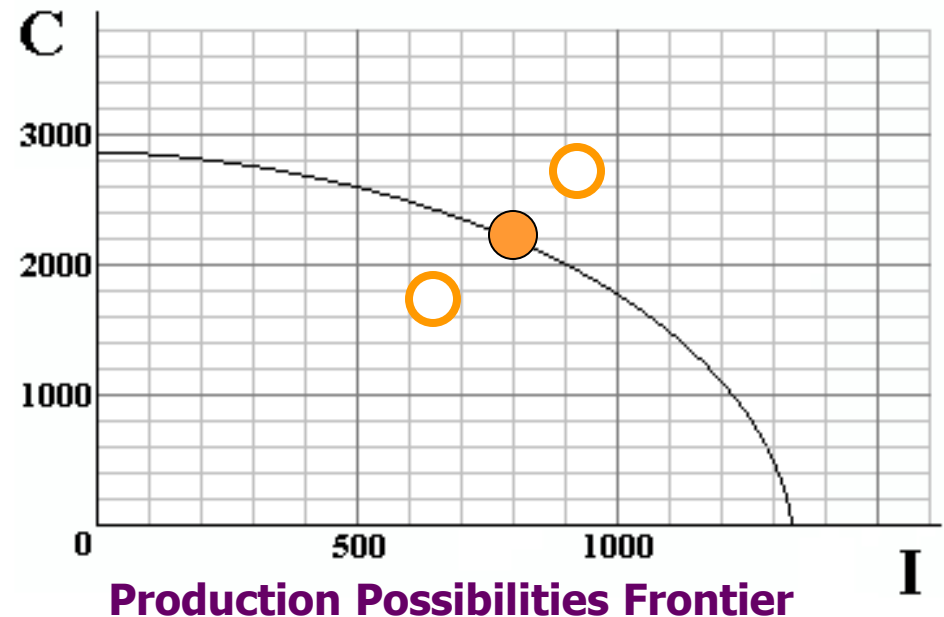
"That it seems in principle possible to recast a great part of economic theory in terms of the approach which I had found useful in dealing with such different problems as those of industrial fluctuations and the running of a socialist economy [is] gratifying to me.... Professor O'Driscoll has almost persuaded me that I ought to have continued with the work I had been doing in the 1930s and 1940s rather than let myself be drawn away to other problems which I felt to be more important."

--from the Foreword to G. P. O'Driscoll's *Economics as a Coordination Problem: The Contribution of Friedrich A. Hayek* (1977)



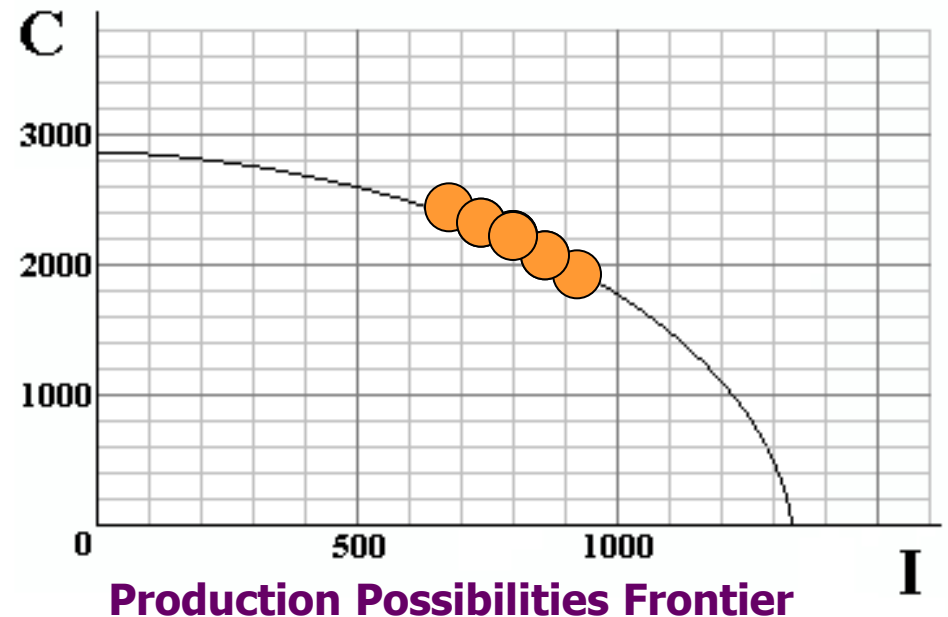
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--paraphrased from "Economics and Knowledge," 1937.



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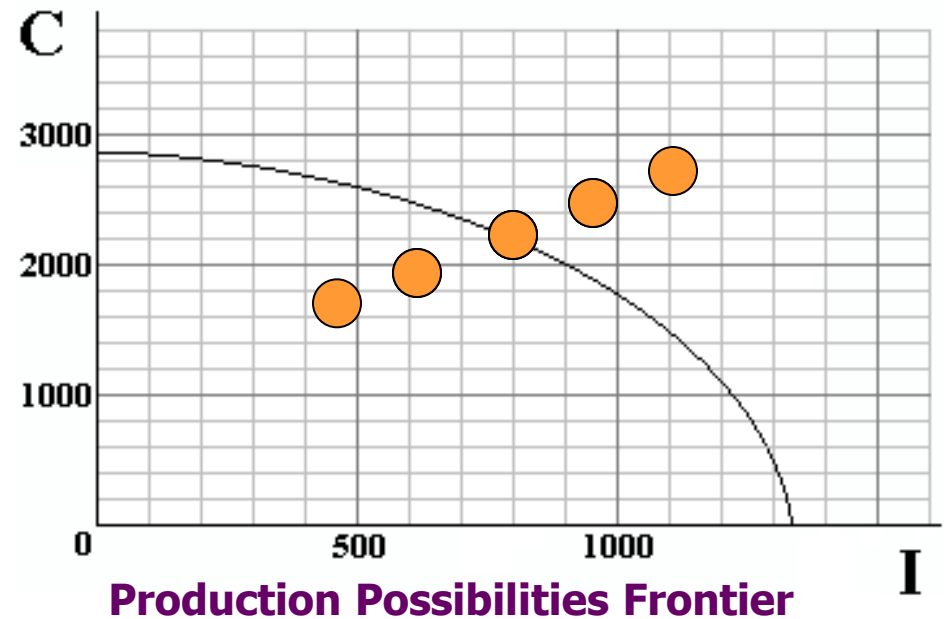


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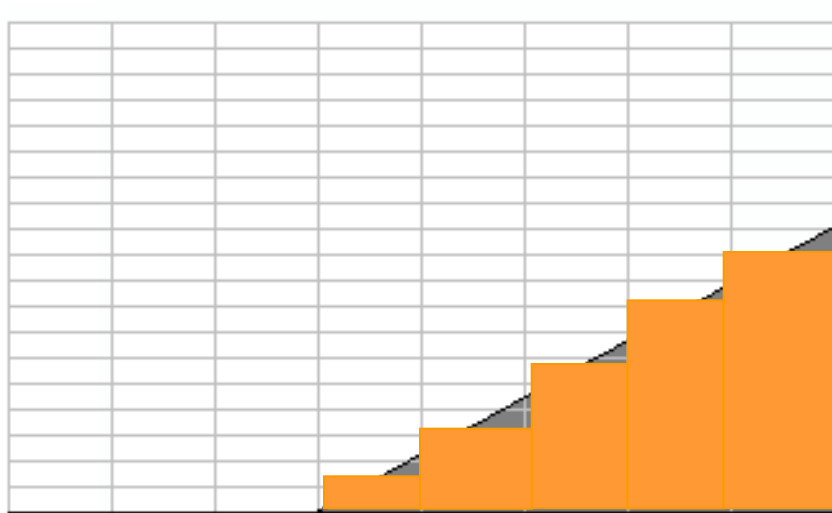


J. M. KEYNES



“Every ... attempt to save more by reducing consumption will so affect incomes that the attempt necessarily defeats itself.”

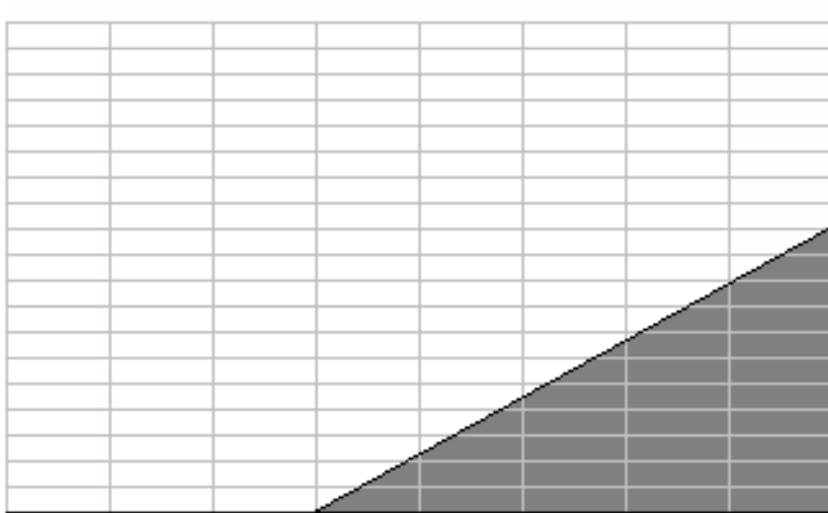
--from *The General Theory*, 1936.



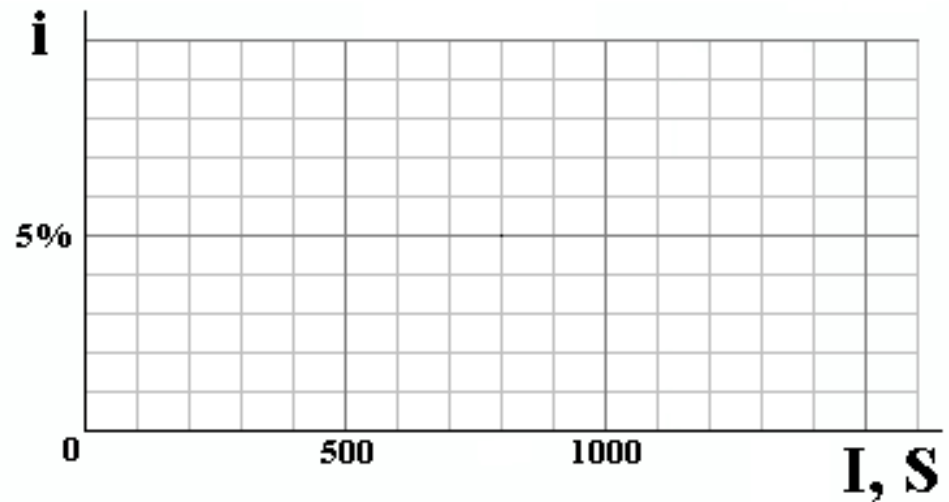
STAGES OF PRODUCTION

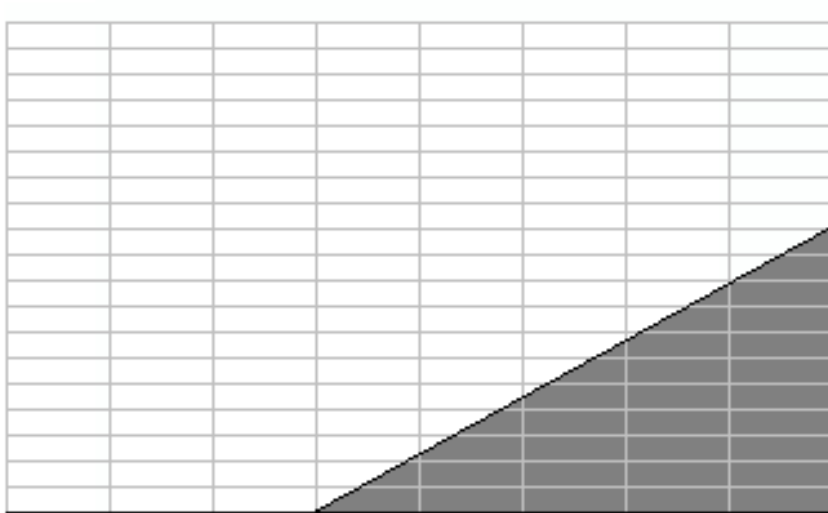
“One student at LSE in the 1930s recalls the "three-dimensional diagrams with which Hayek presented his ideas and which made them seem like something in the field of engineering.”



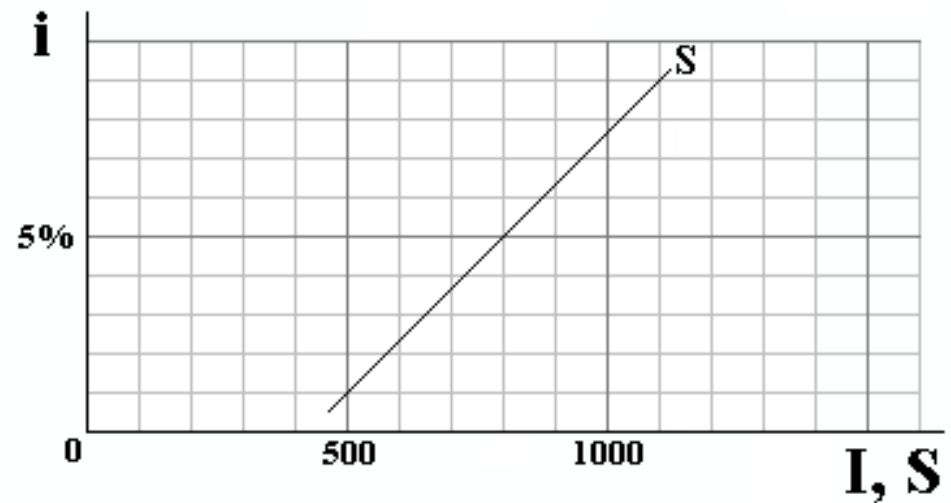


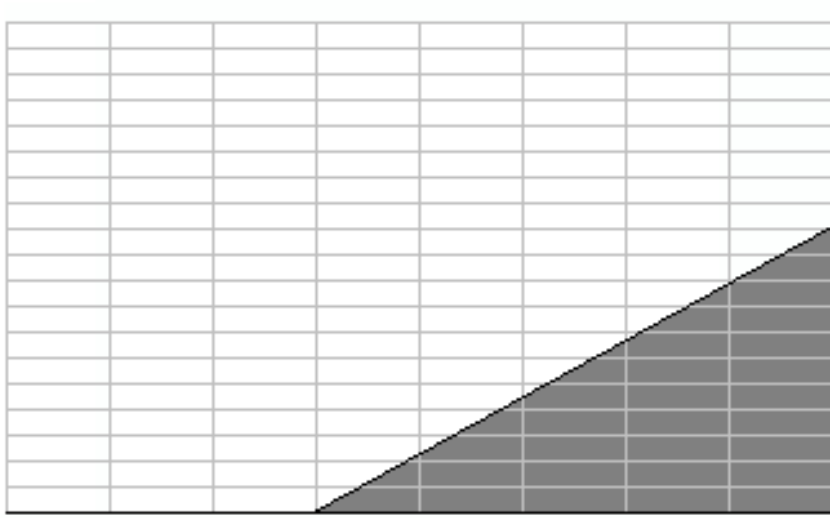
**We must begin our analysis
with a properly functioning
market economy.**



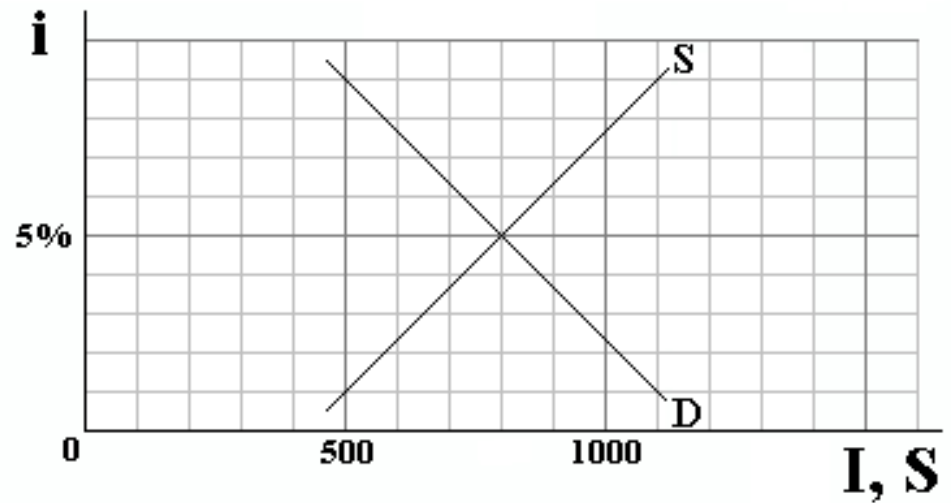


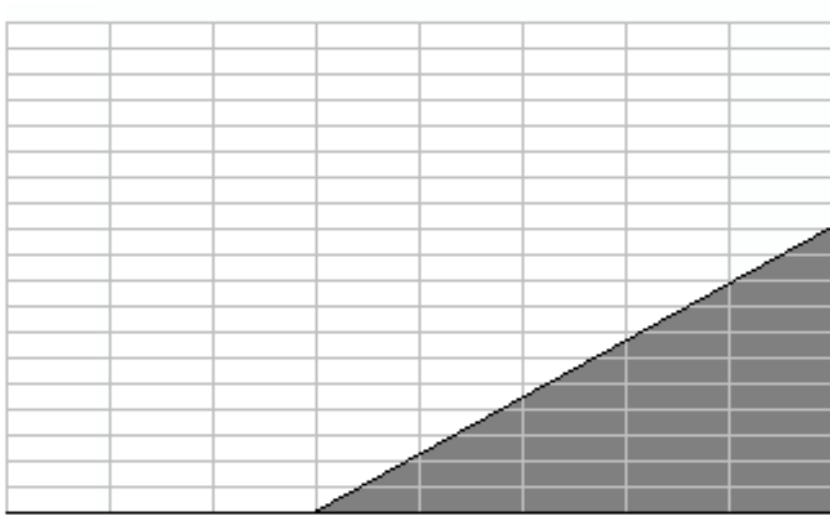
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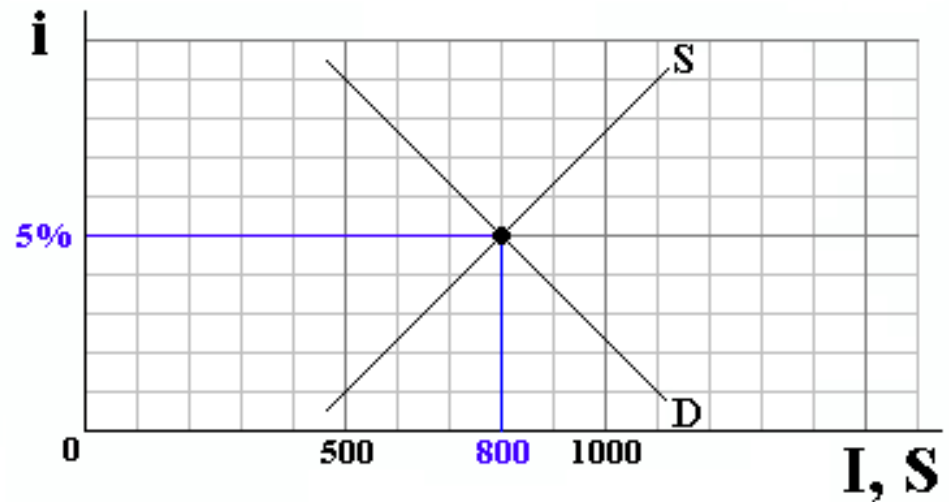


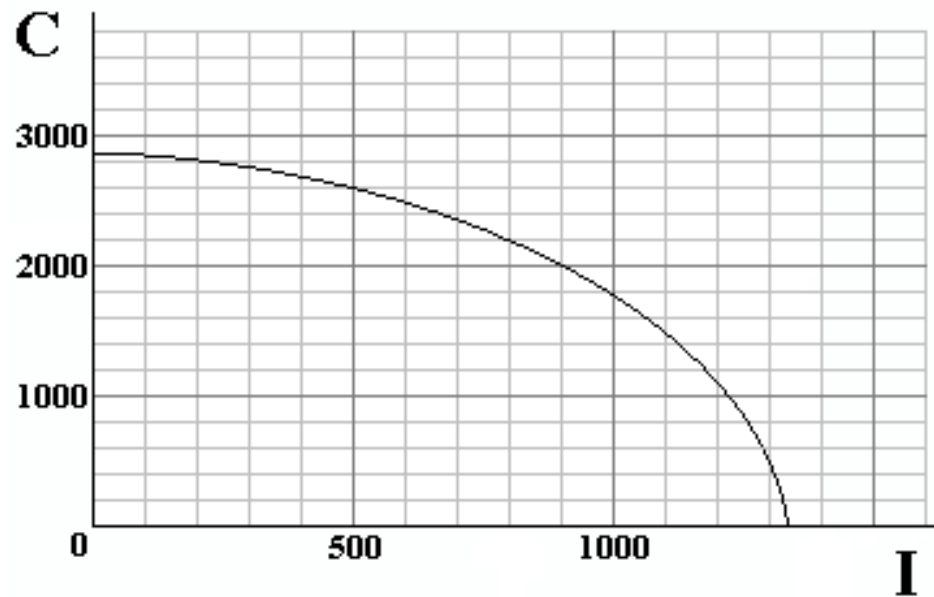
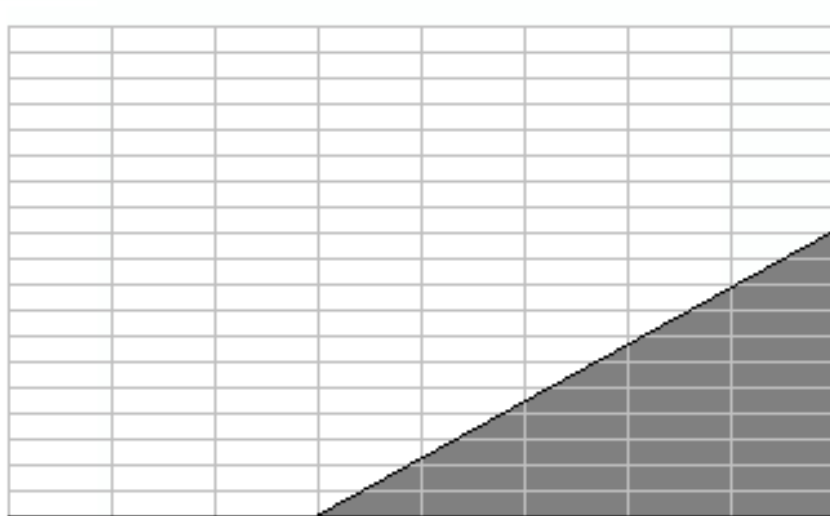
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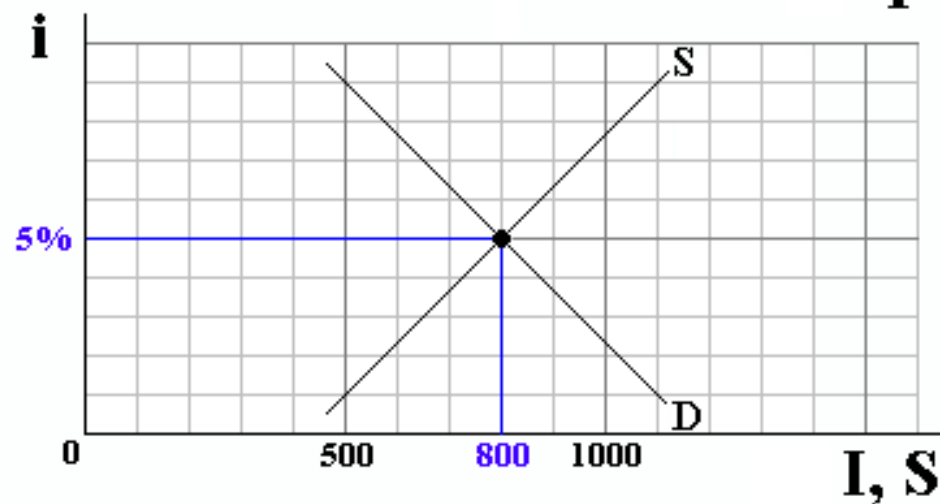


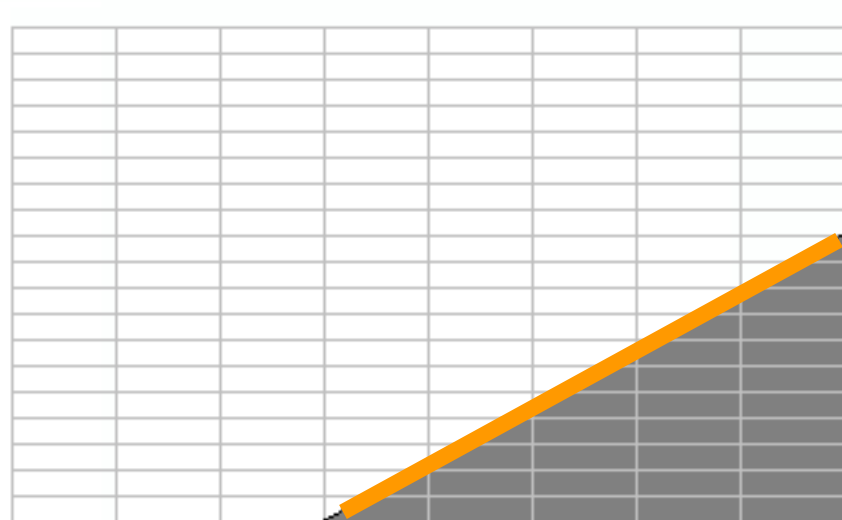
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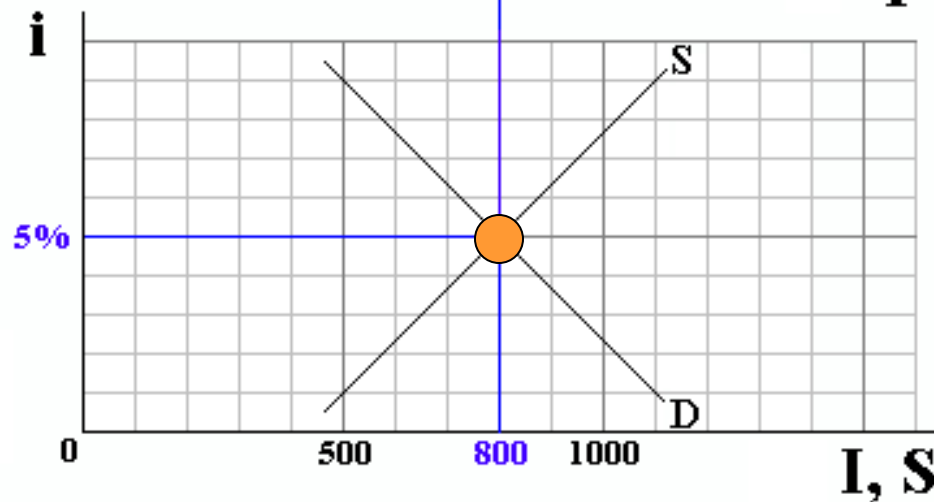
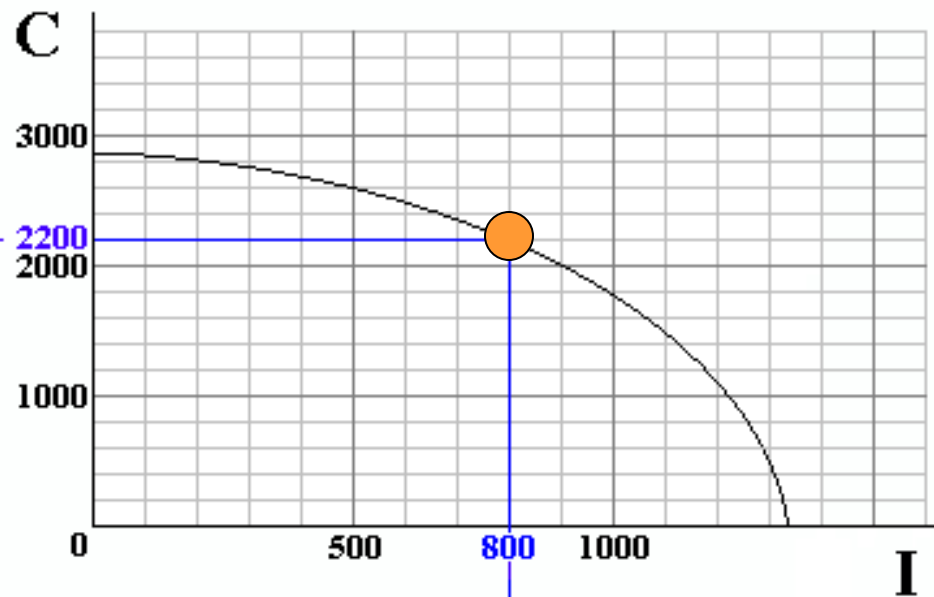
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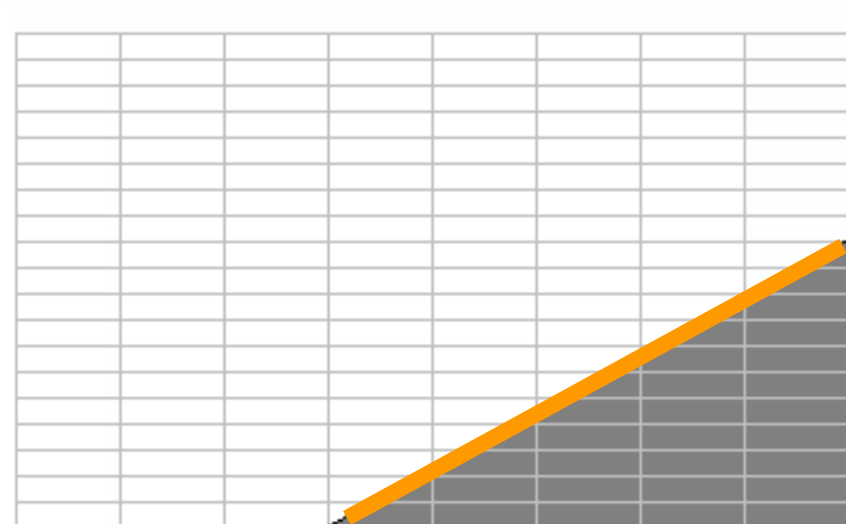




STAGES OF PRODUCTION

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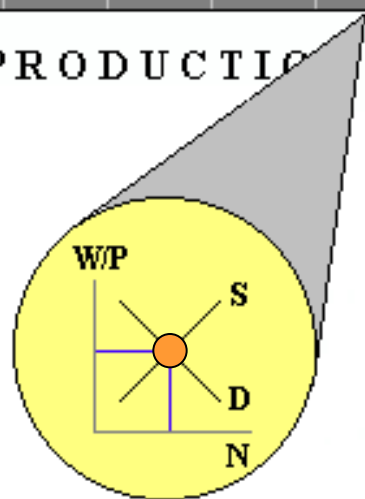
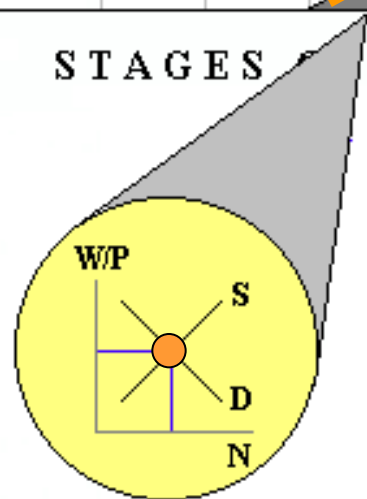
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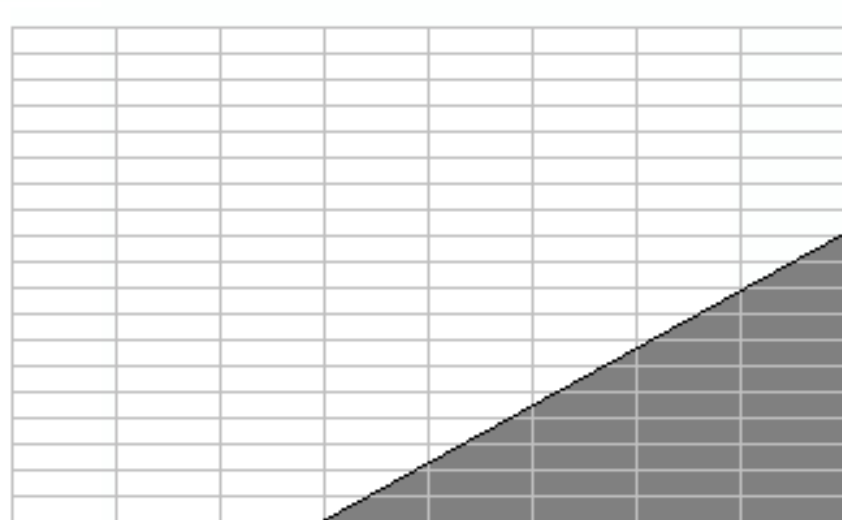
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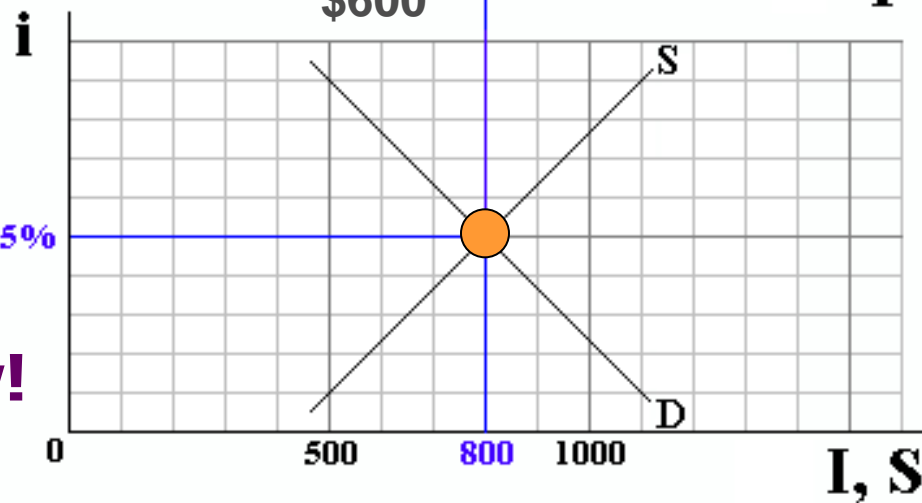
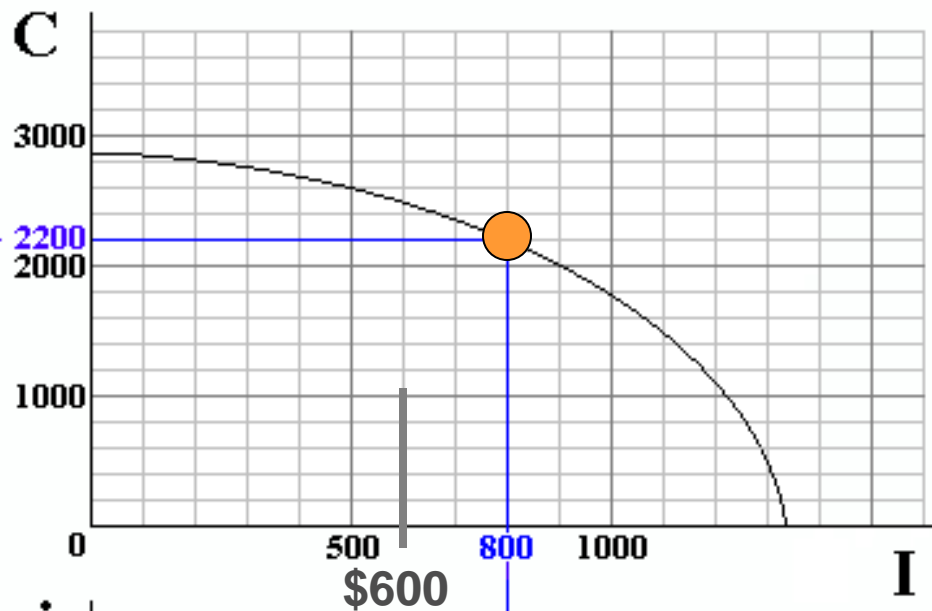
STAGES

PRODUCTION

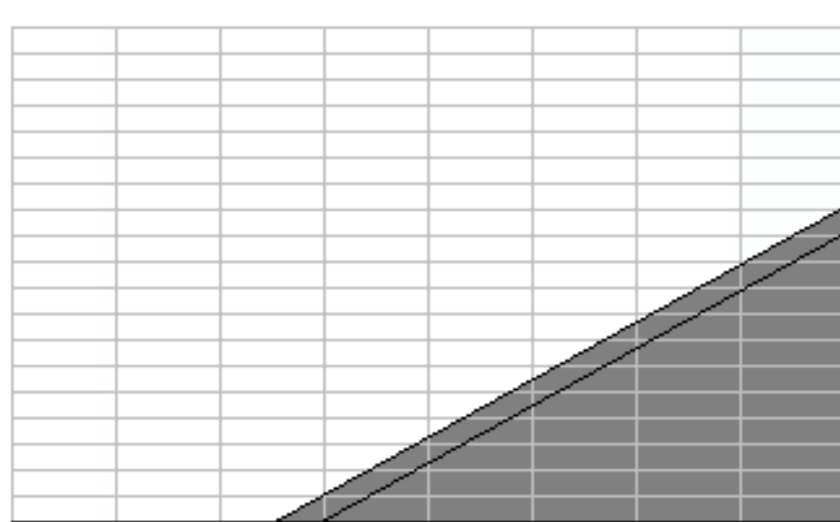




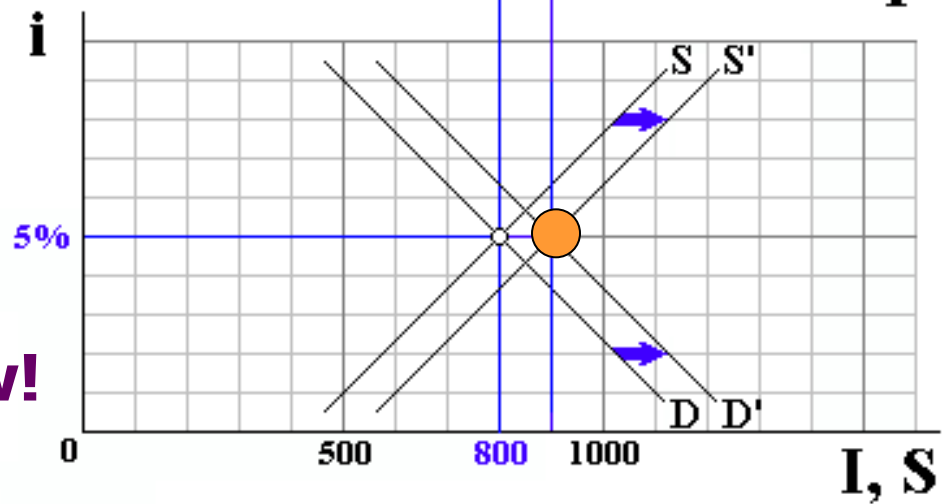
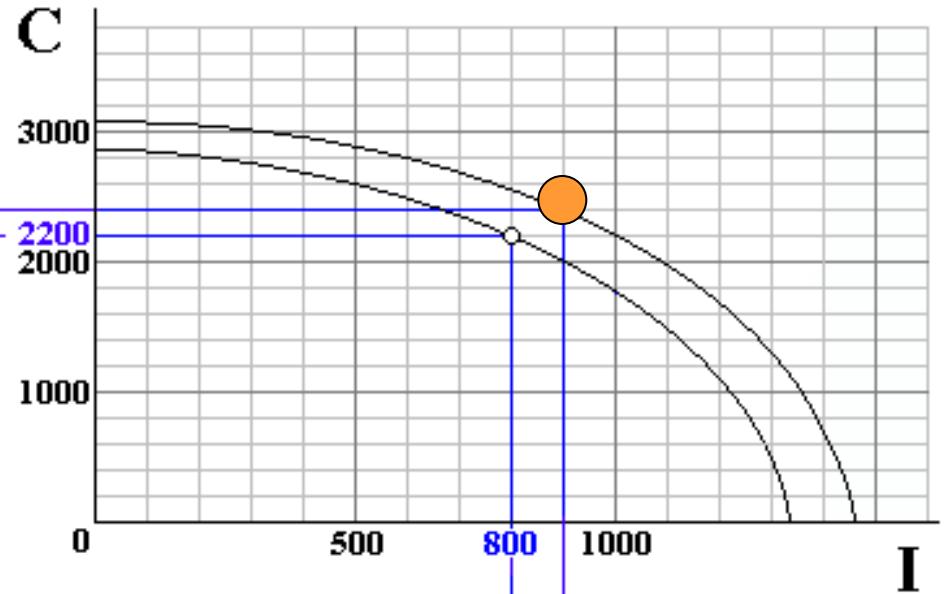
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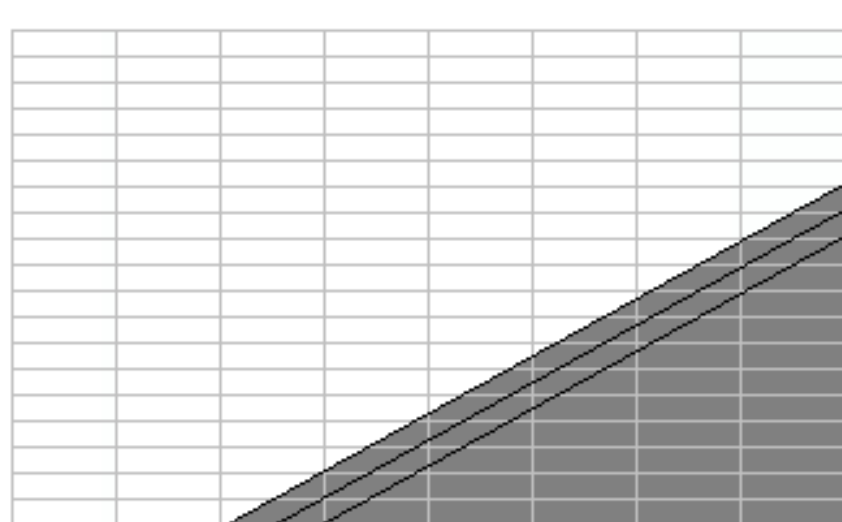
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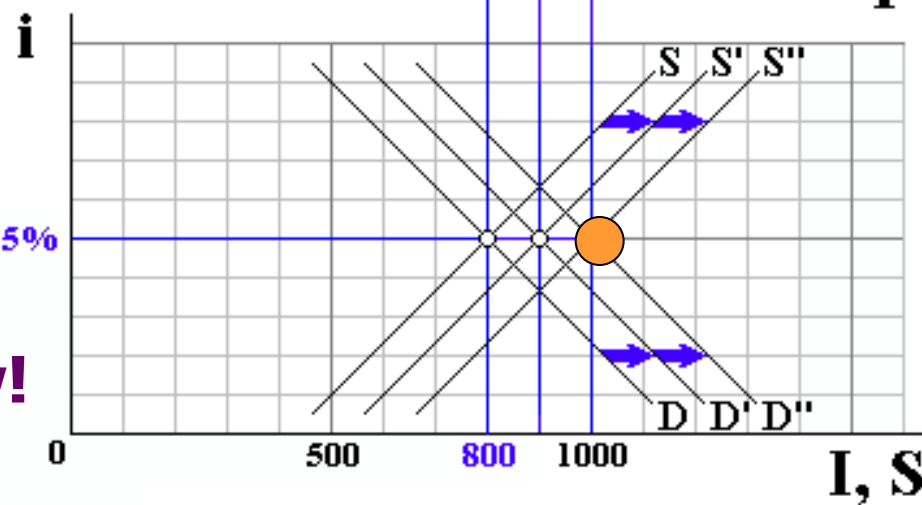
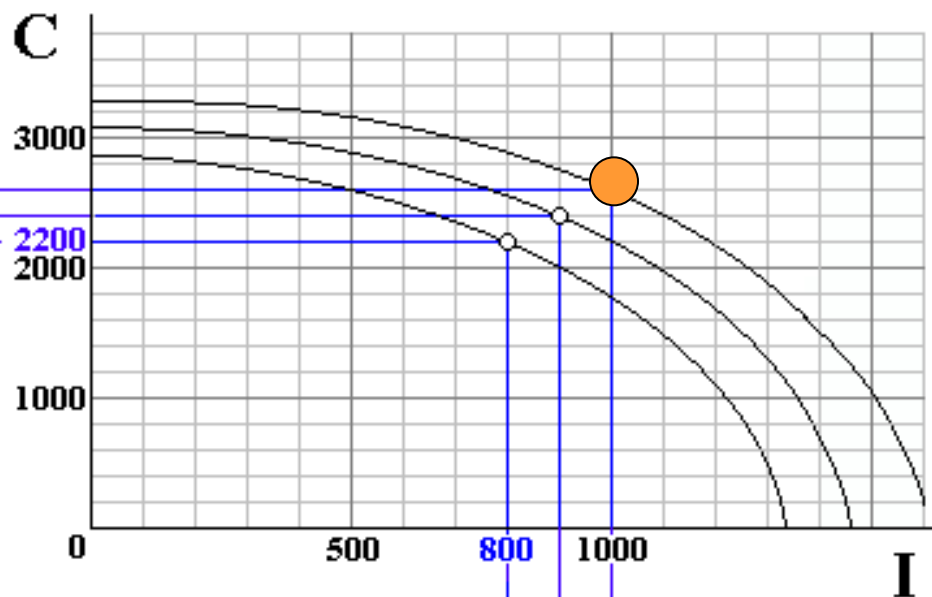
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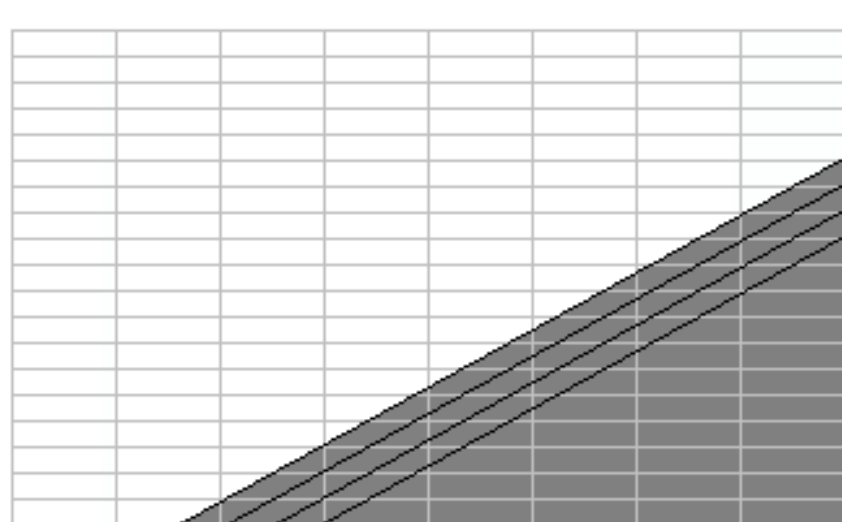
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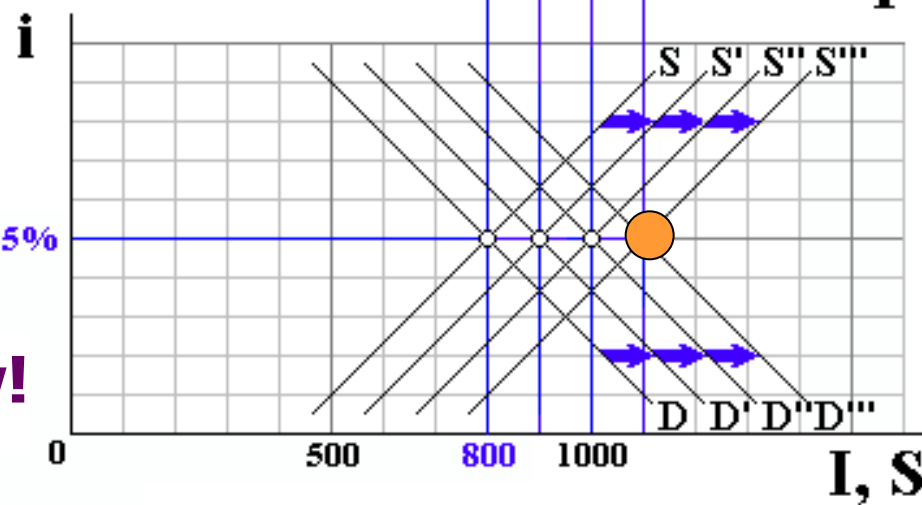
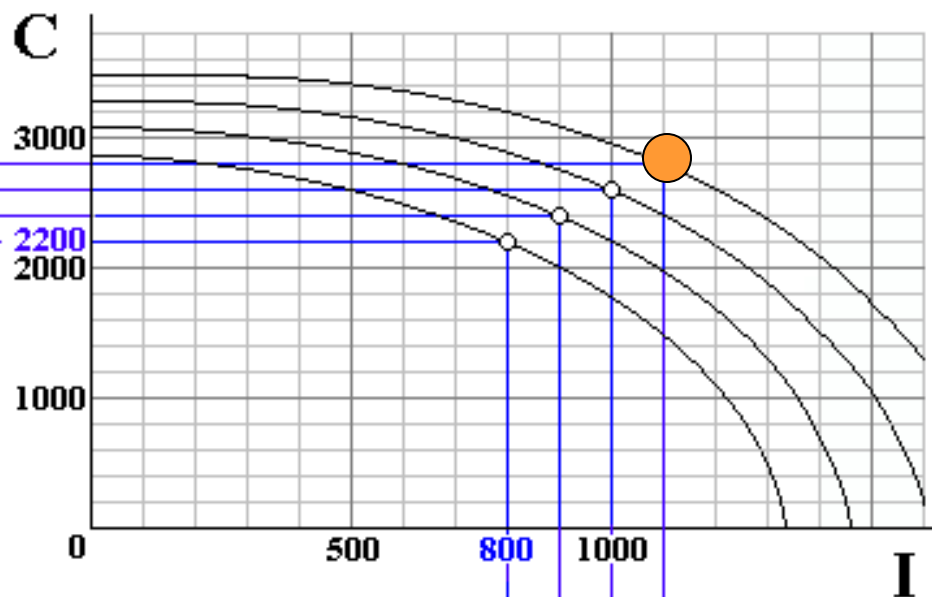
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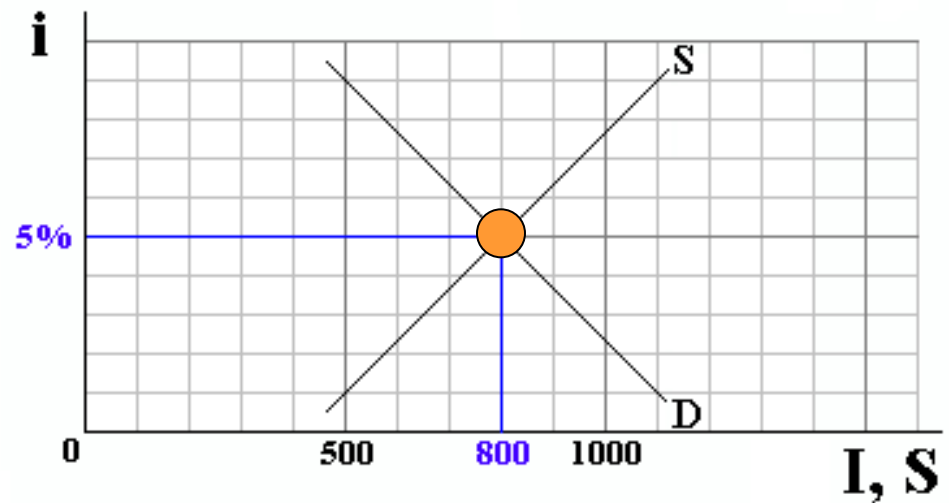
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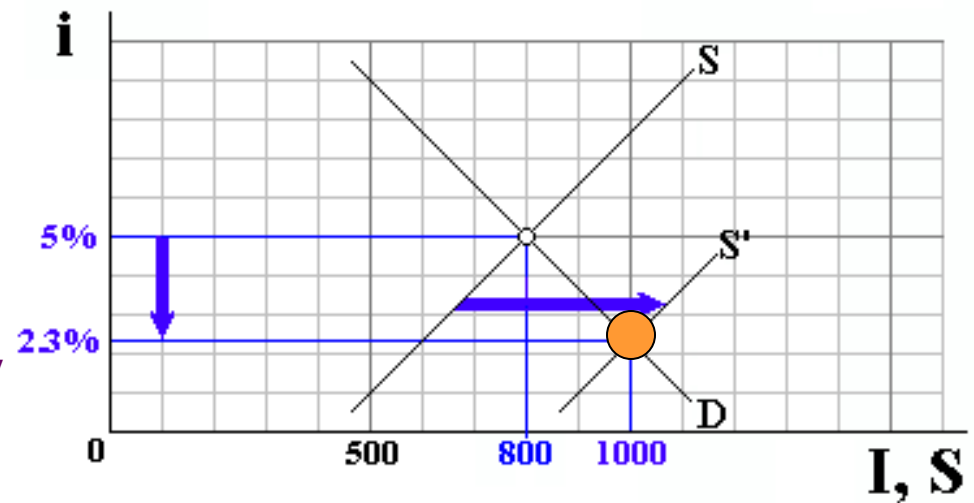
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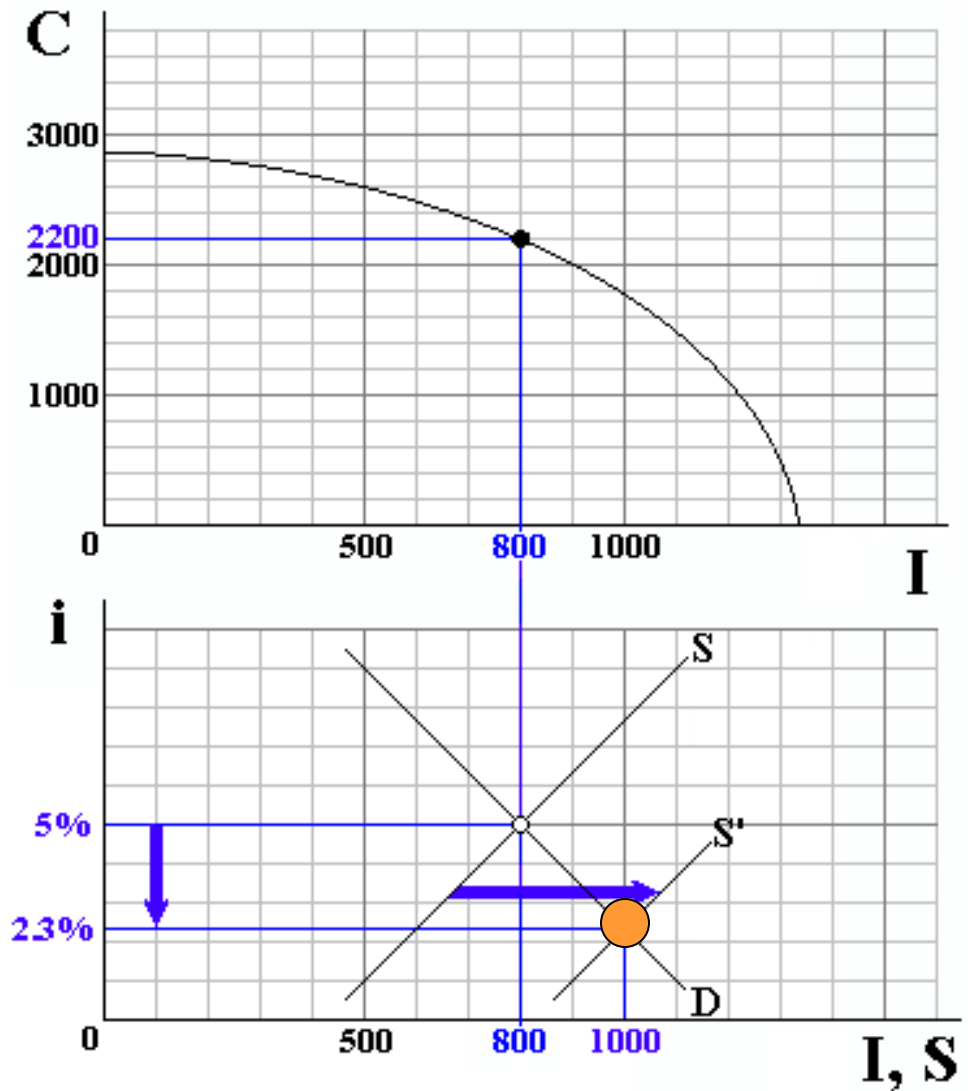
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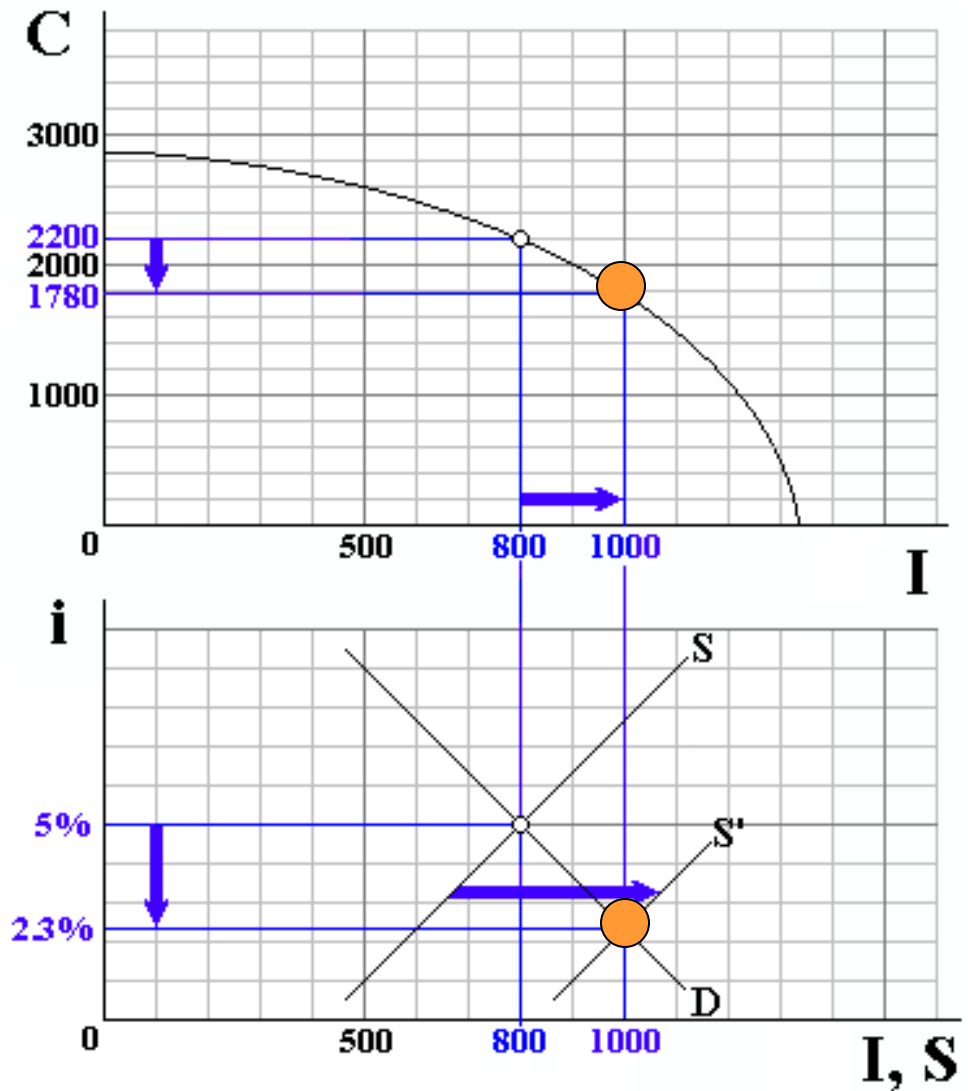
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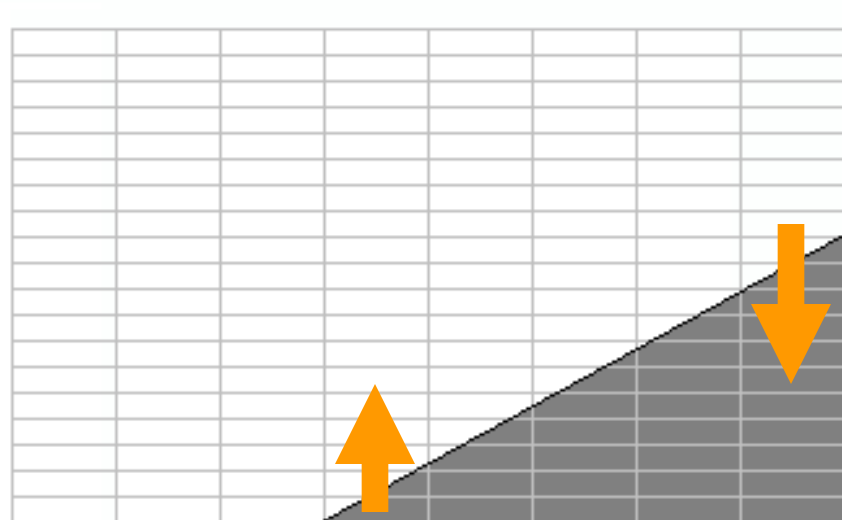
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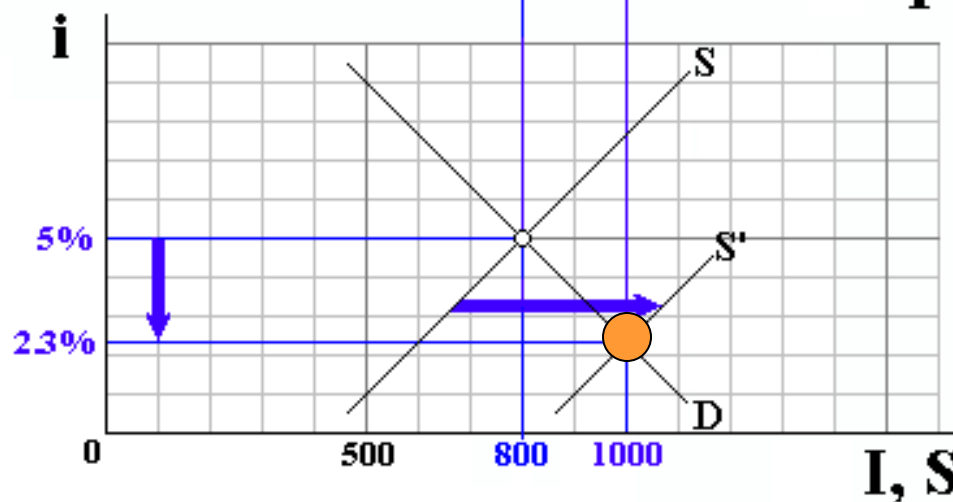
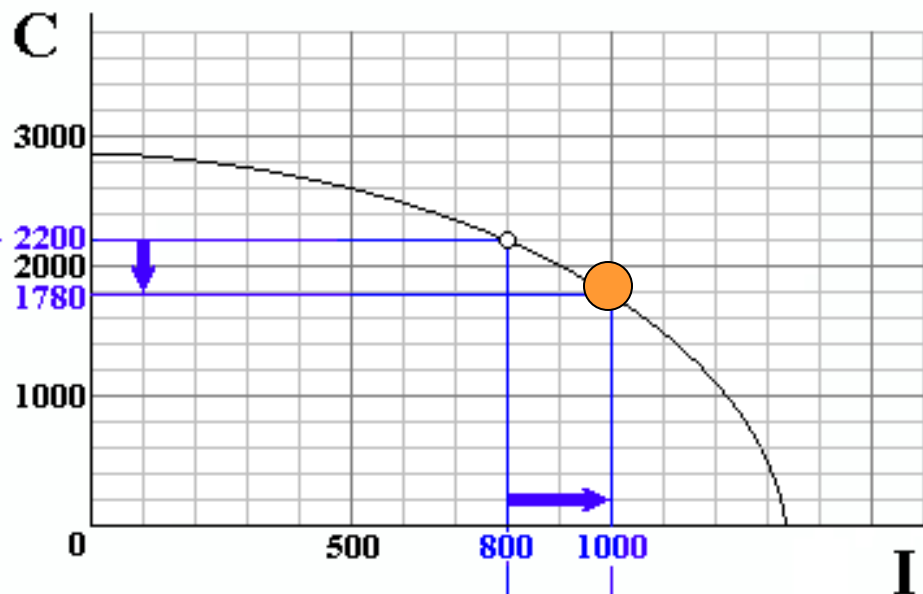


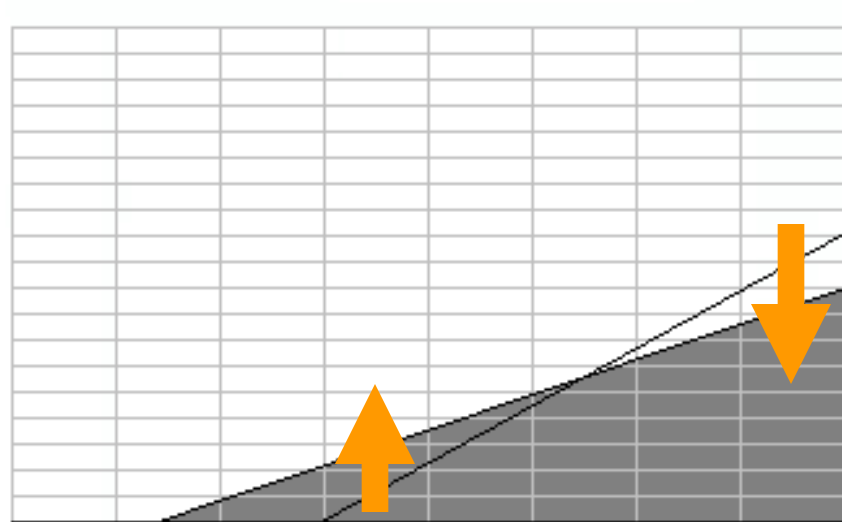


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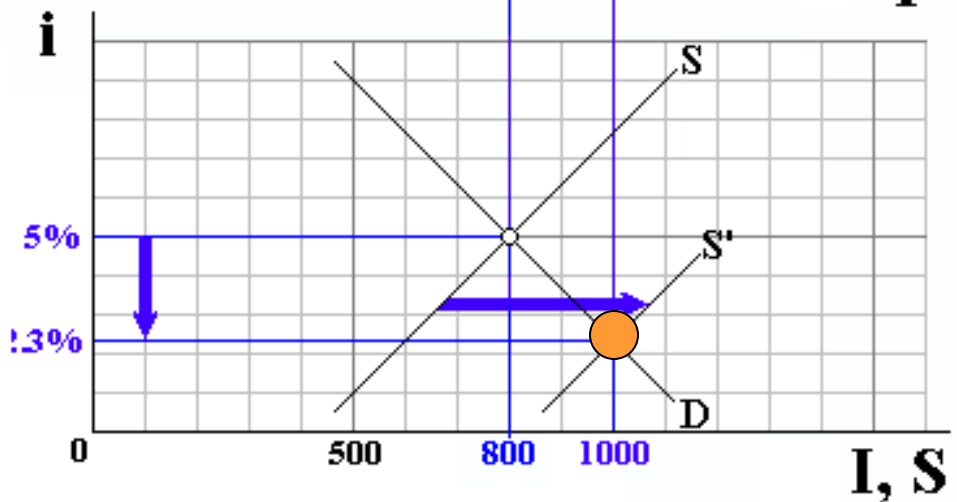
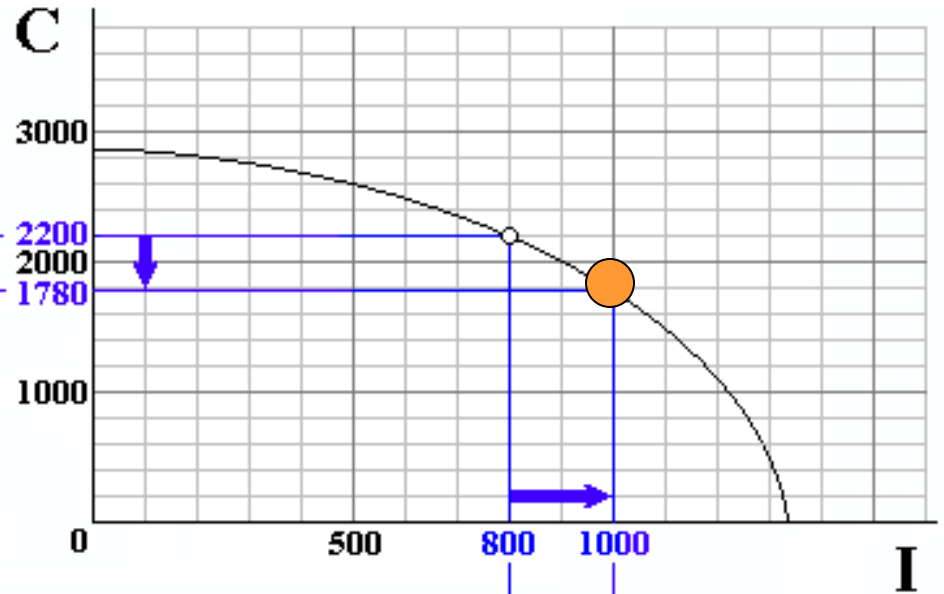


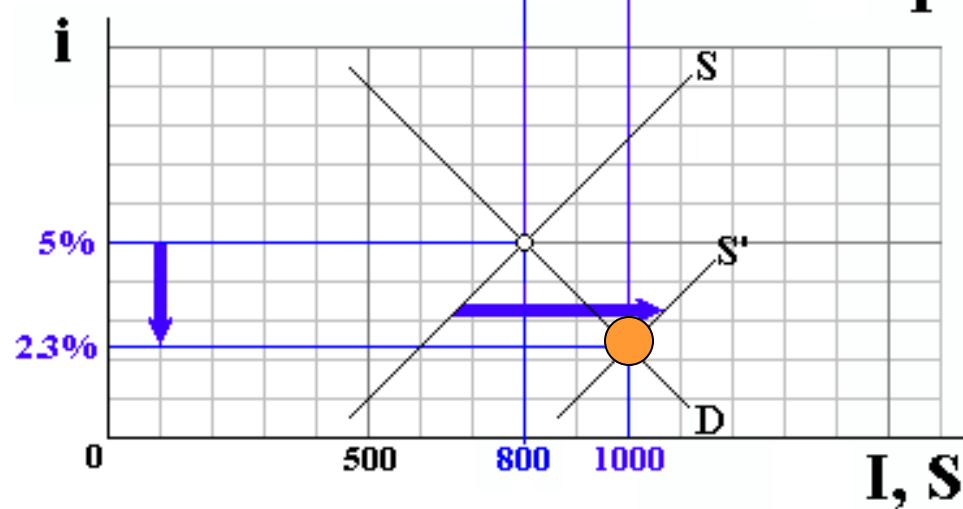
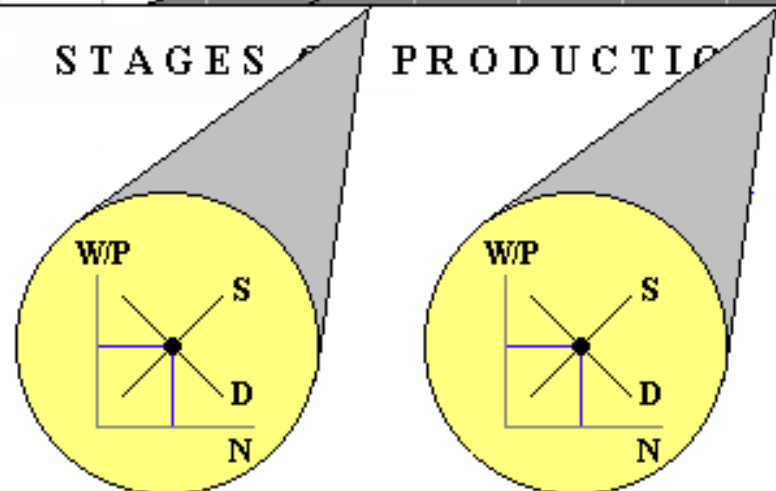
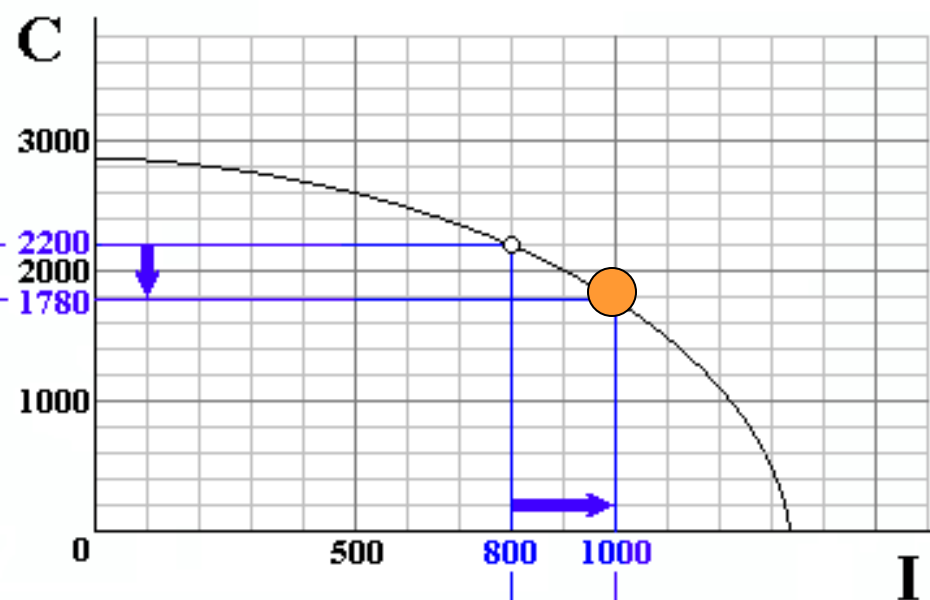
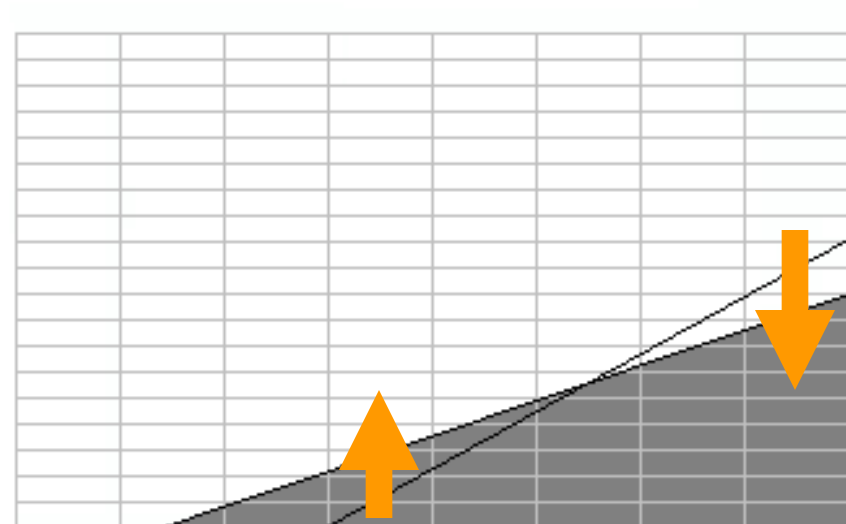


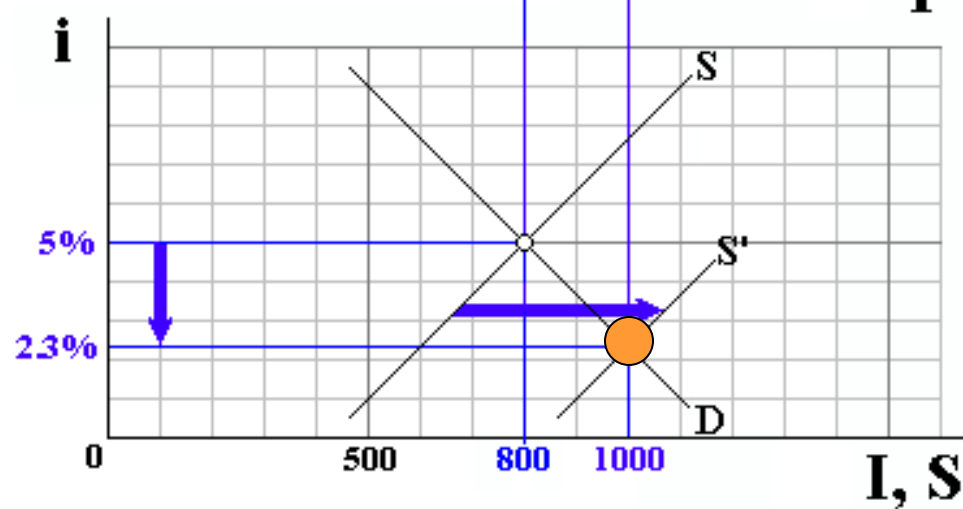
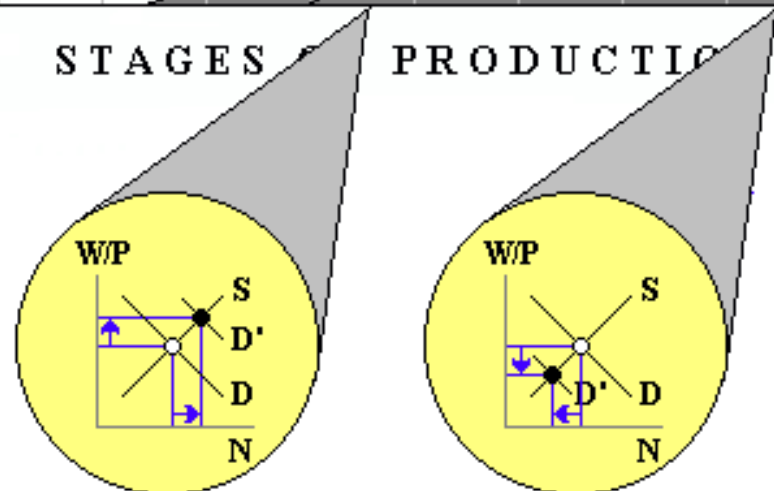
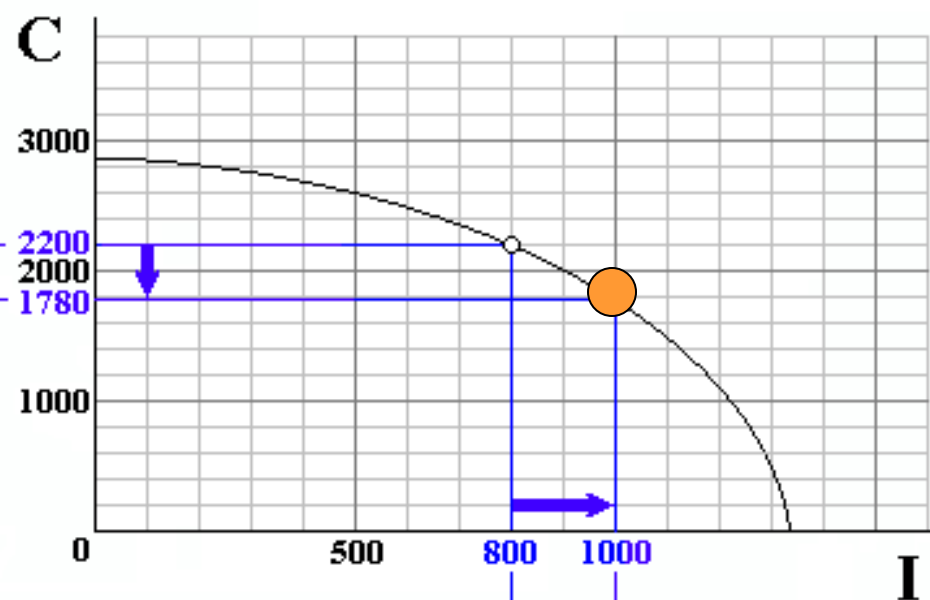
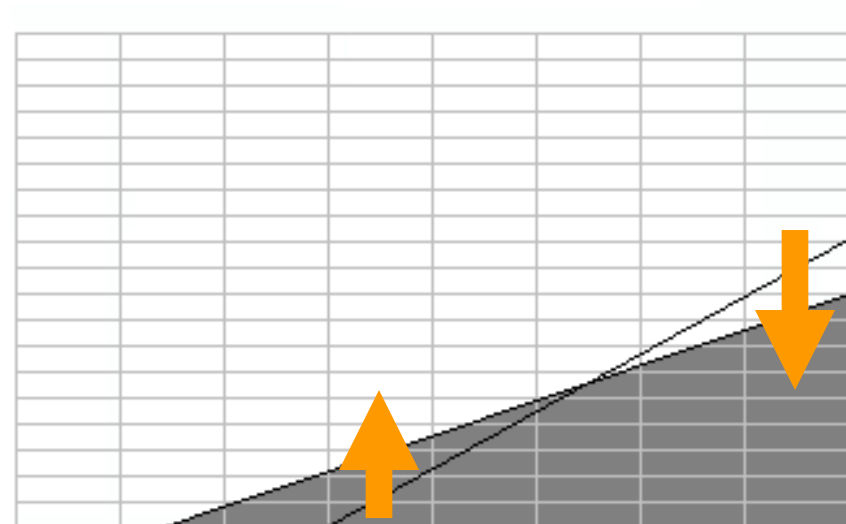
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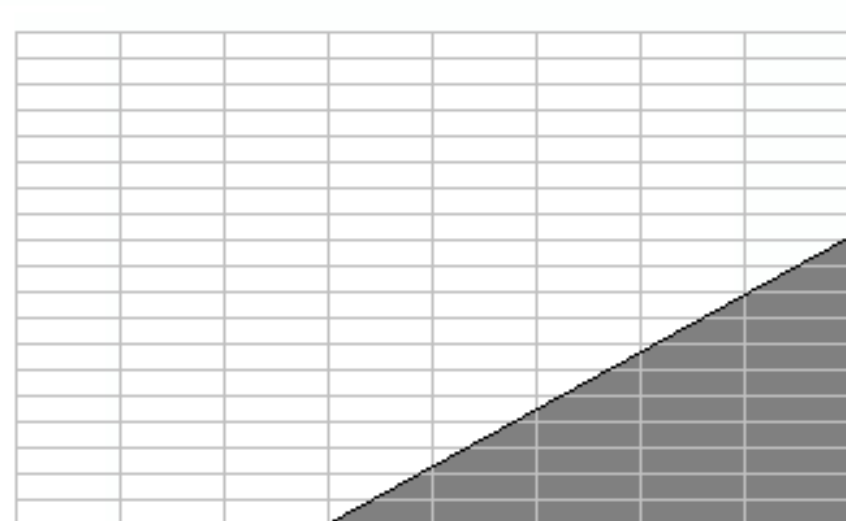
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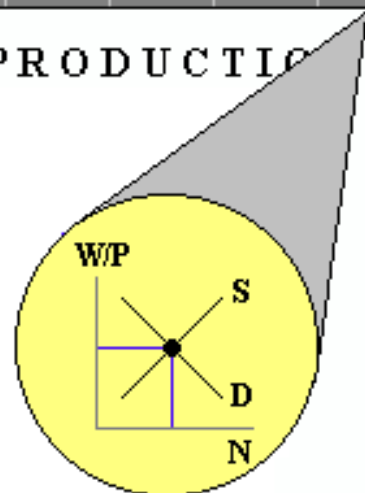
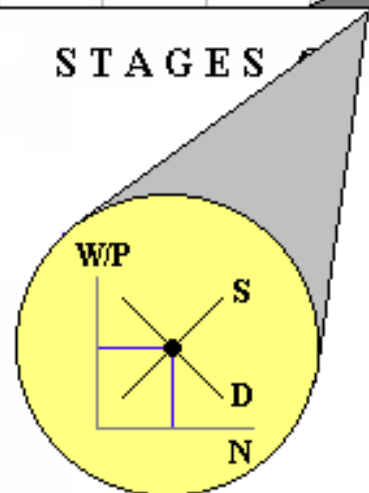






STAGES

PRODUCTIO



C

3000

2200

2000

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i

5%

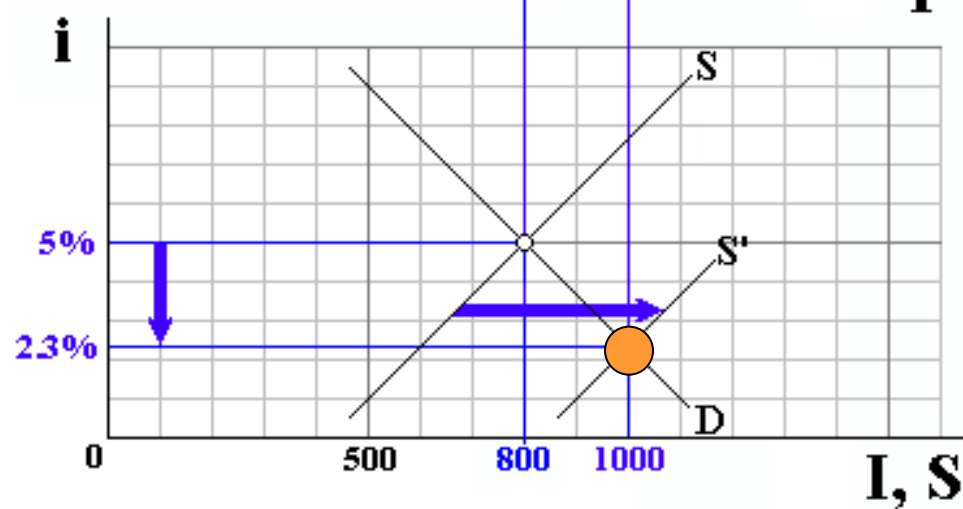
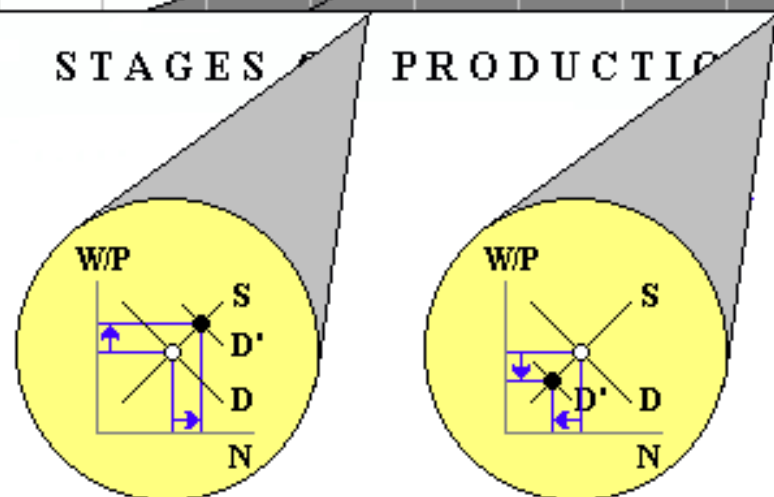
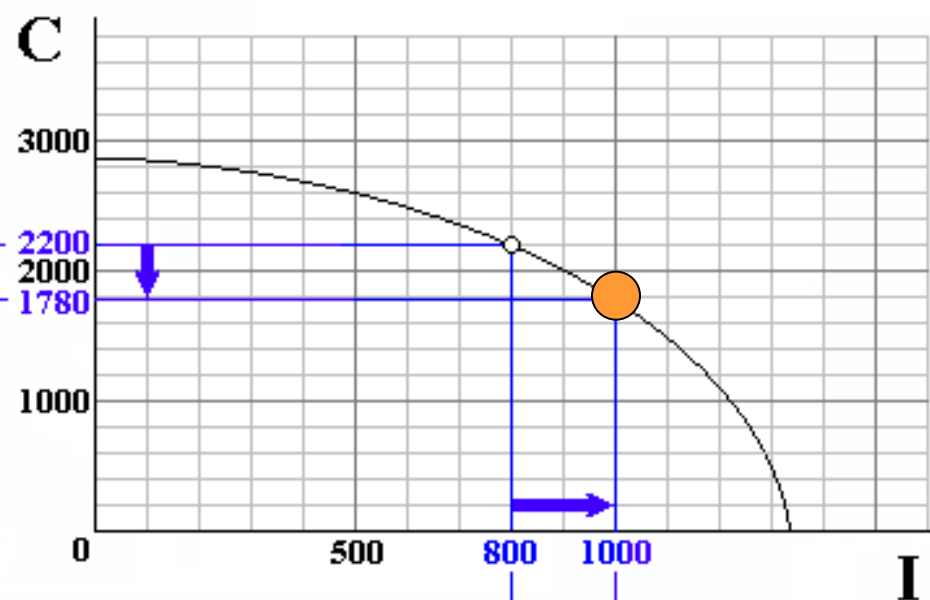
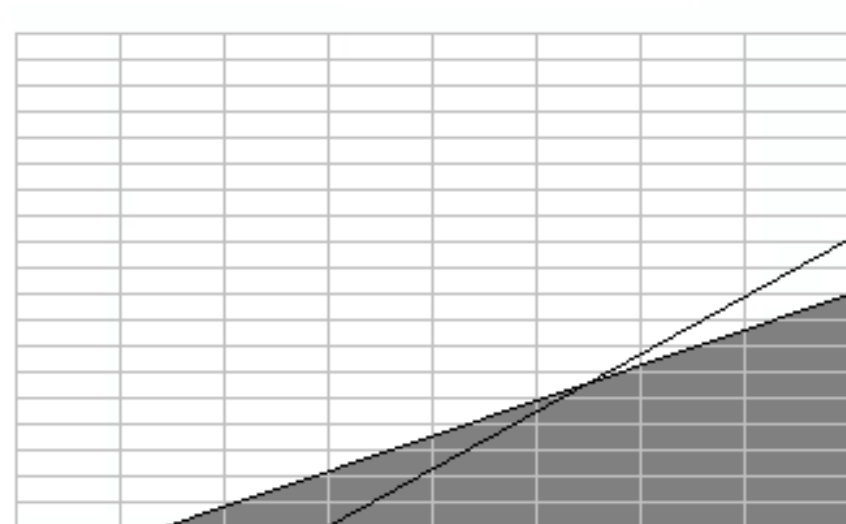
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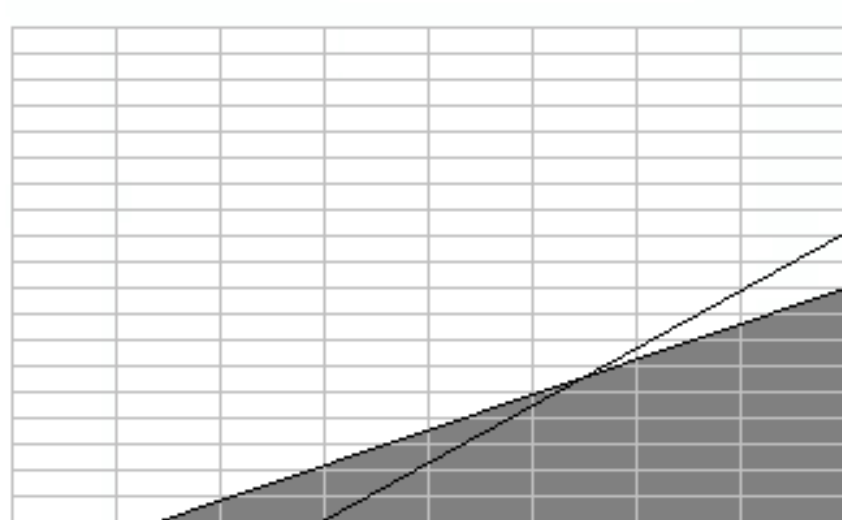
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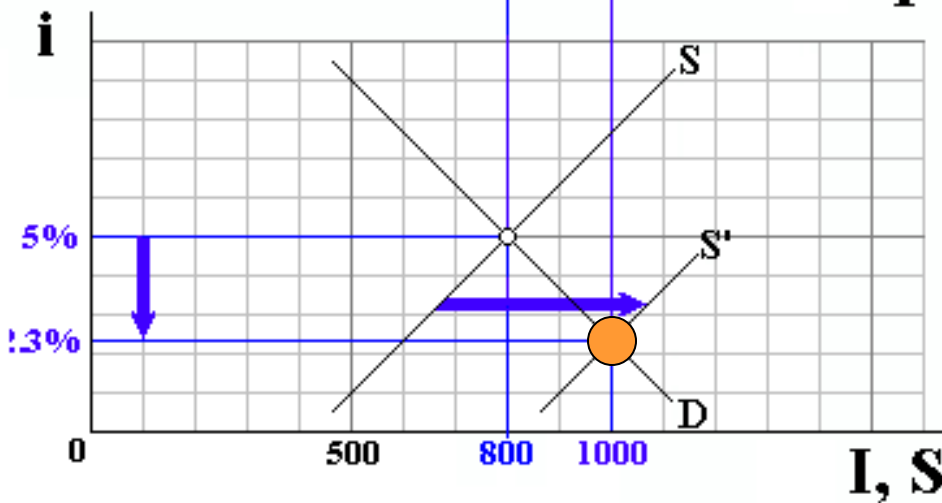
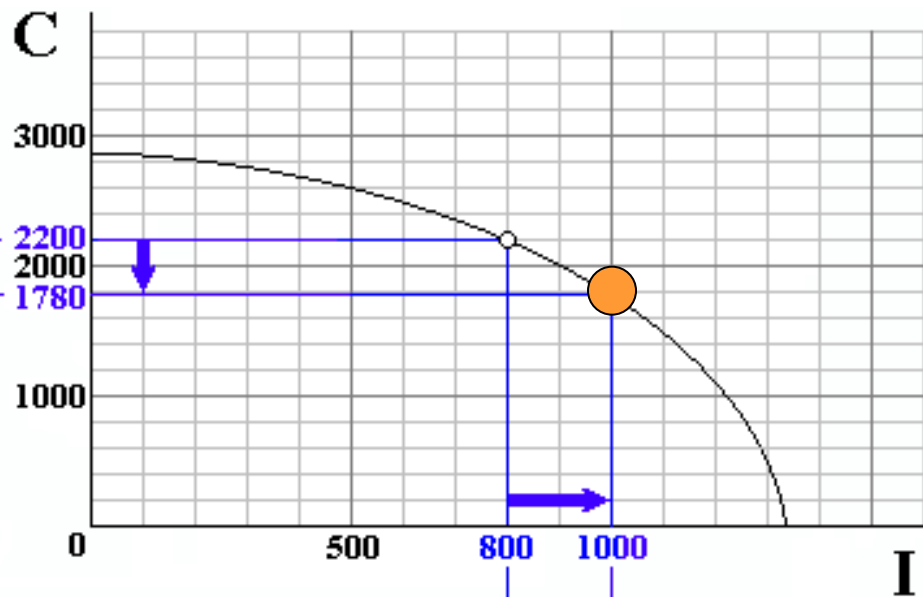
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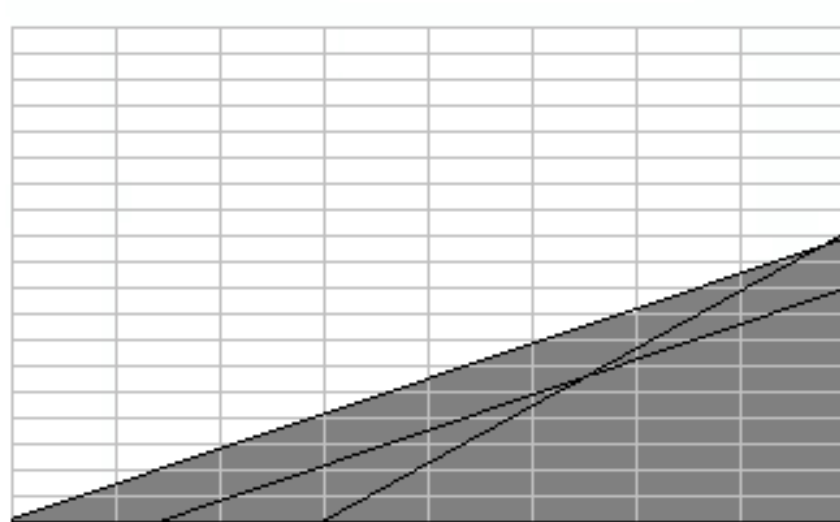




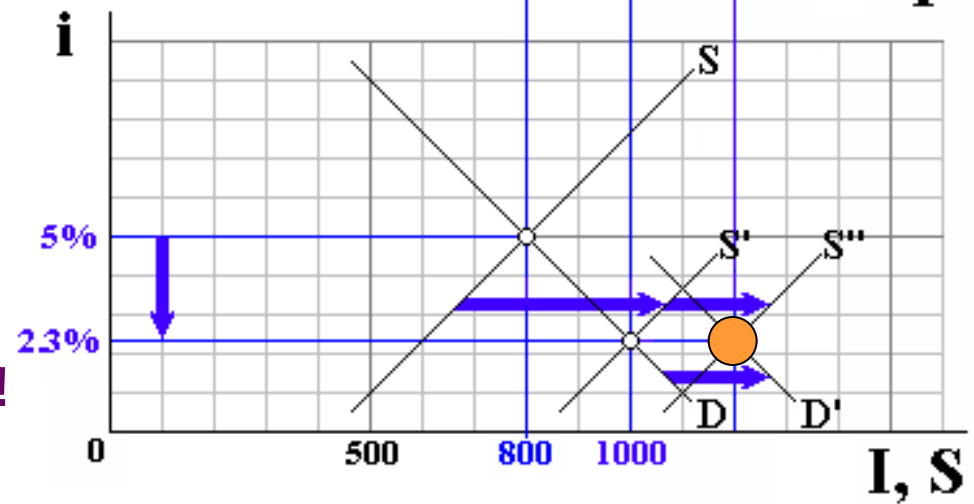
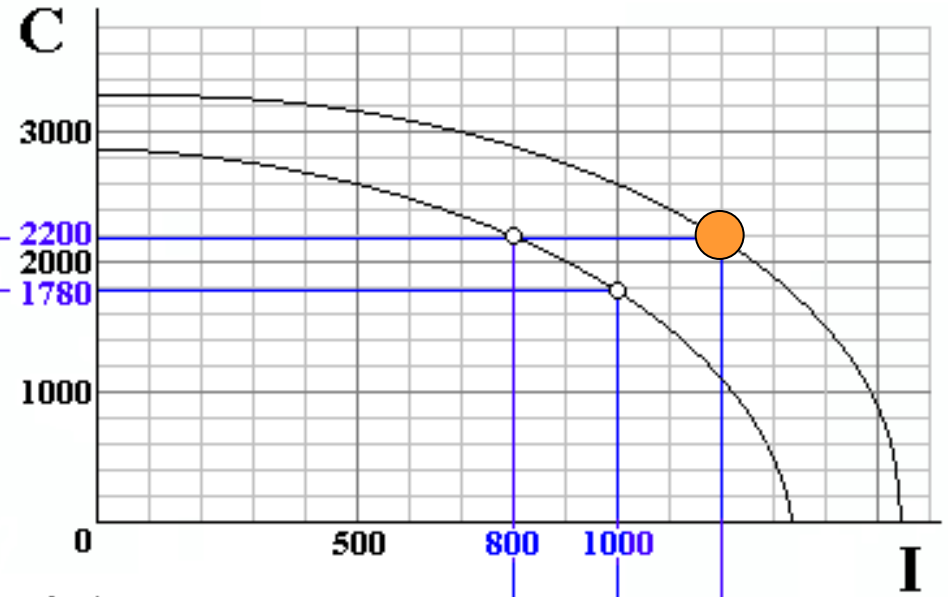
STAGES OF PRODUCTION



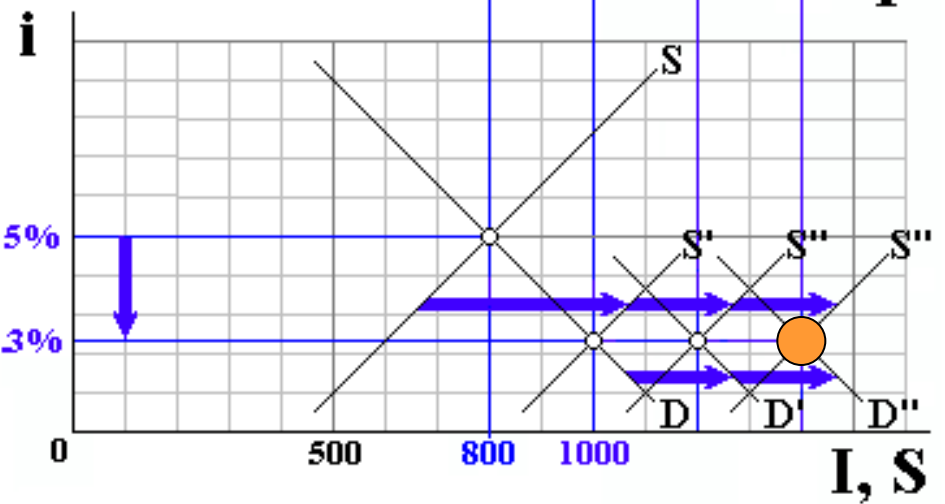
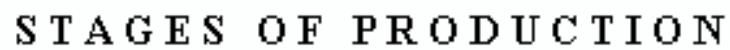
Now watch the economy grow!

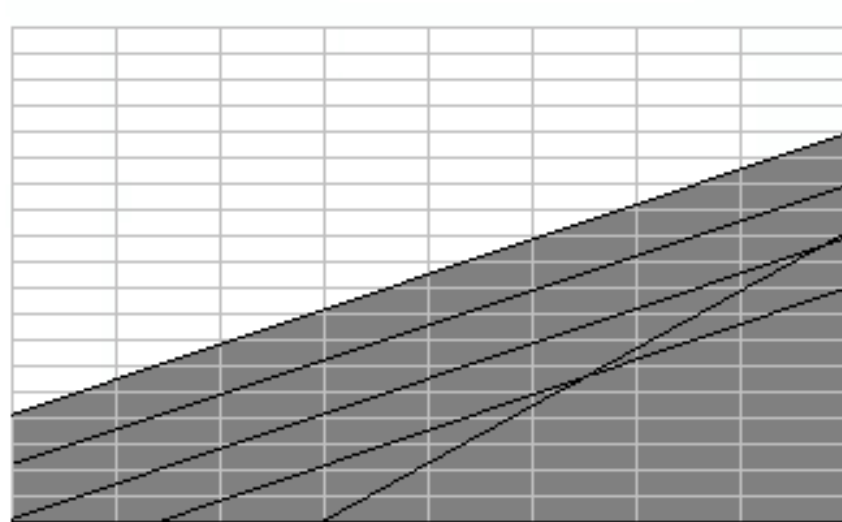


STAGES OF PRODUCTION

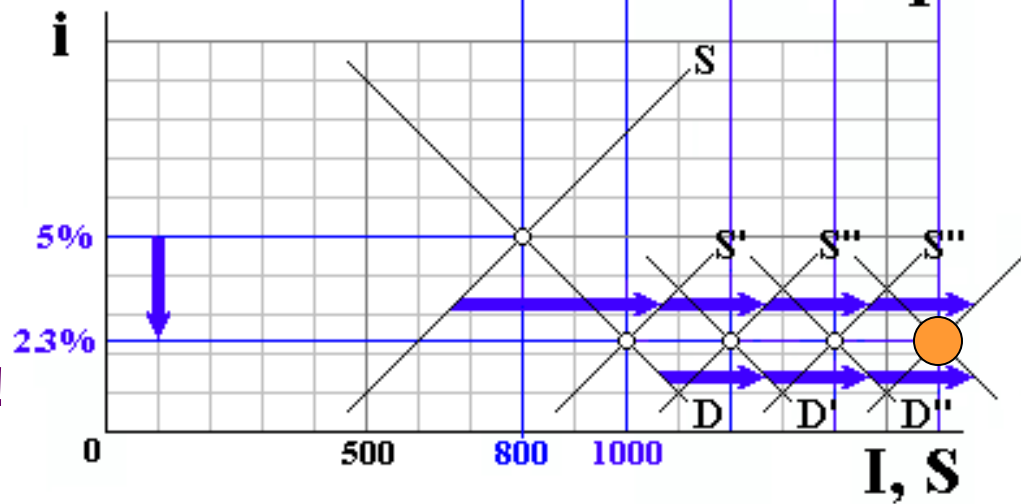
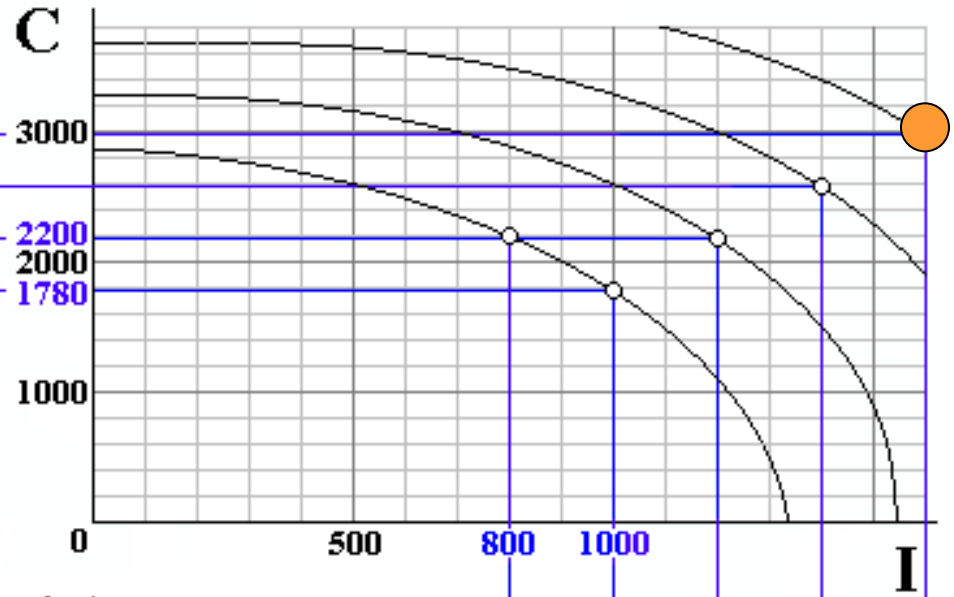


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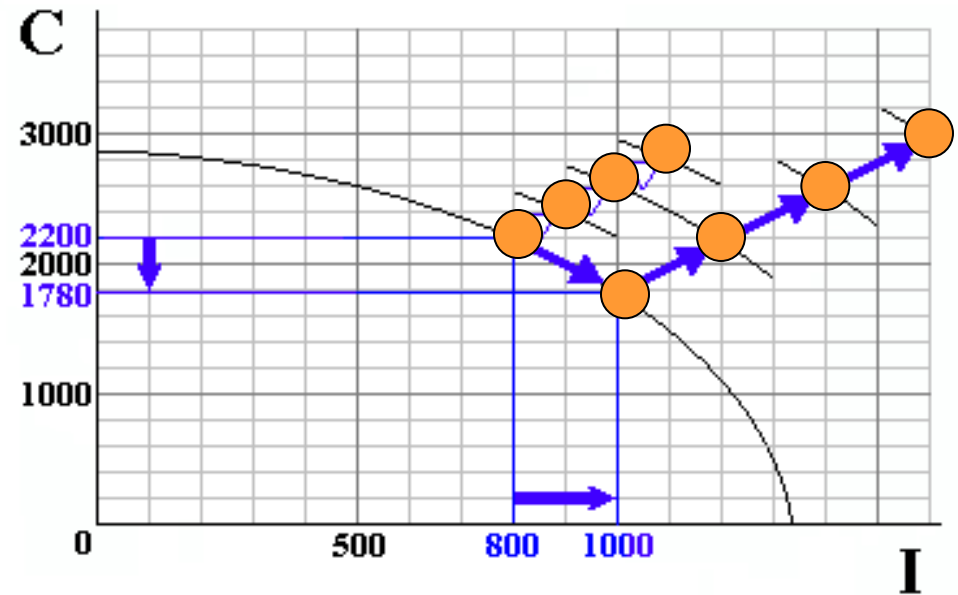
STAGES OF PRODUCTION



Now watch the economy grow!

Saving & Growth

	SLOW	RAPID
Period 0	2200	1780
Period 1	2400	2180
Period 2	2600	2580
Period 3	2800	2980



↖ GROWTH PATH WITH NO
INITIAL INCREASE IN SAVINGS

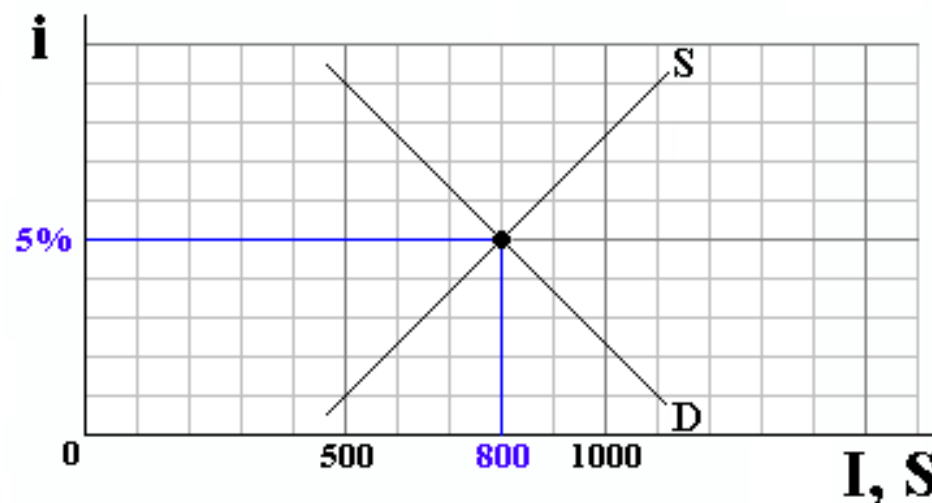
➔ GROWTH PATH ENHANCED BY
AN INITIAL INCREASE IN SAVINGS

“Money by its very nature constitutes a kind of loose joint in the self-equilibration apparatus of the price mechanism....”

—*Pure Theory of Capital* (1941)

“The task of monetary theory is nothing less than to cover a second time the whole field which is treated by pure theory under the assumption of barter.”

—*Prices and Production* (1935)

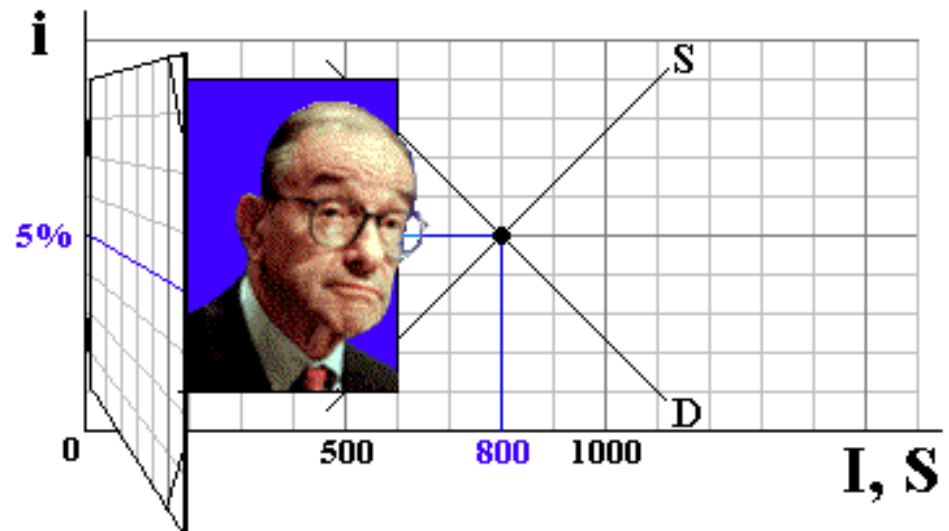


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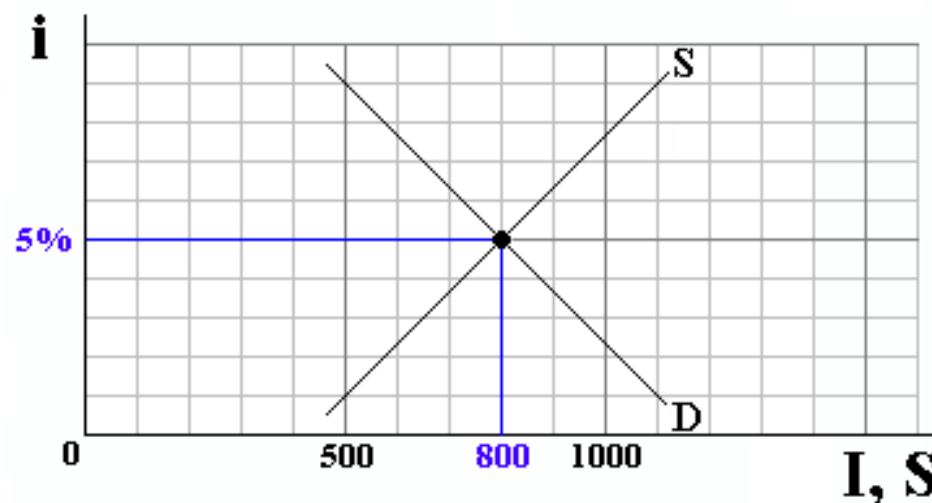


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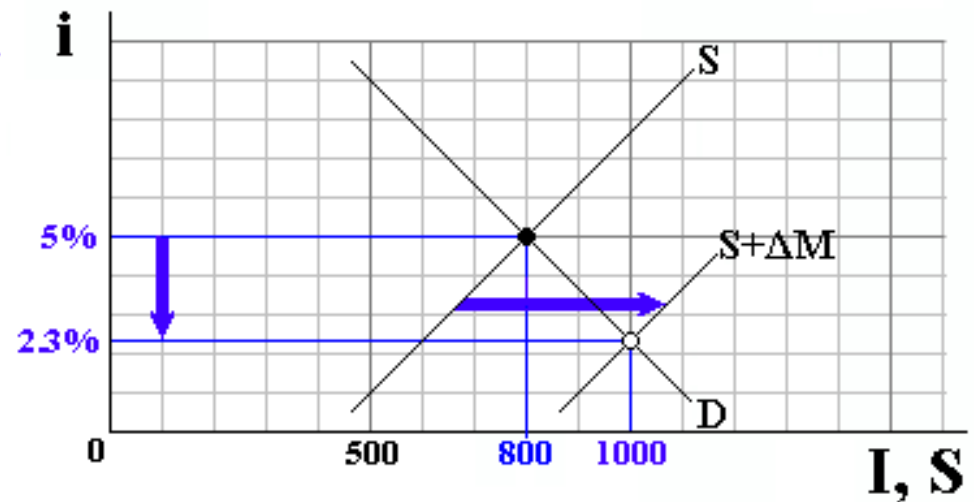


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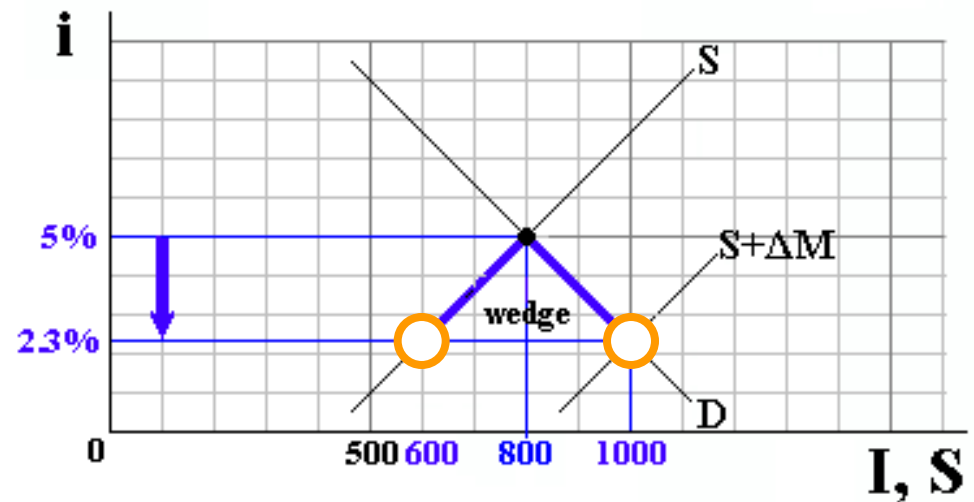


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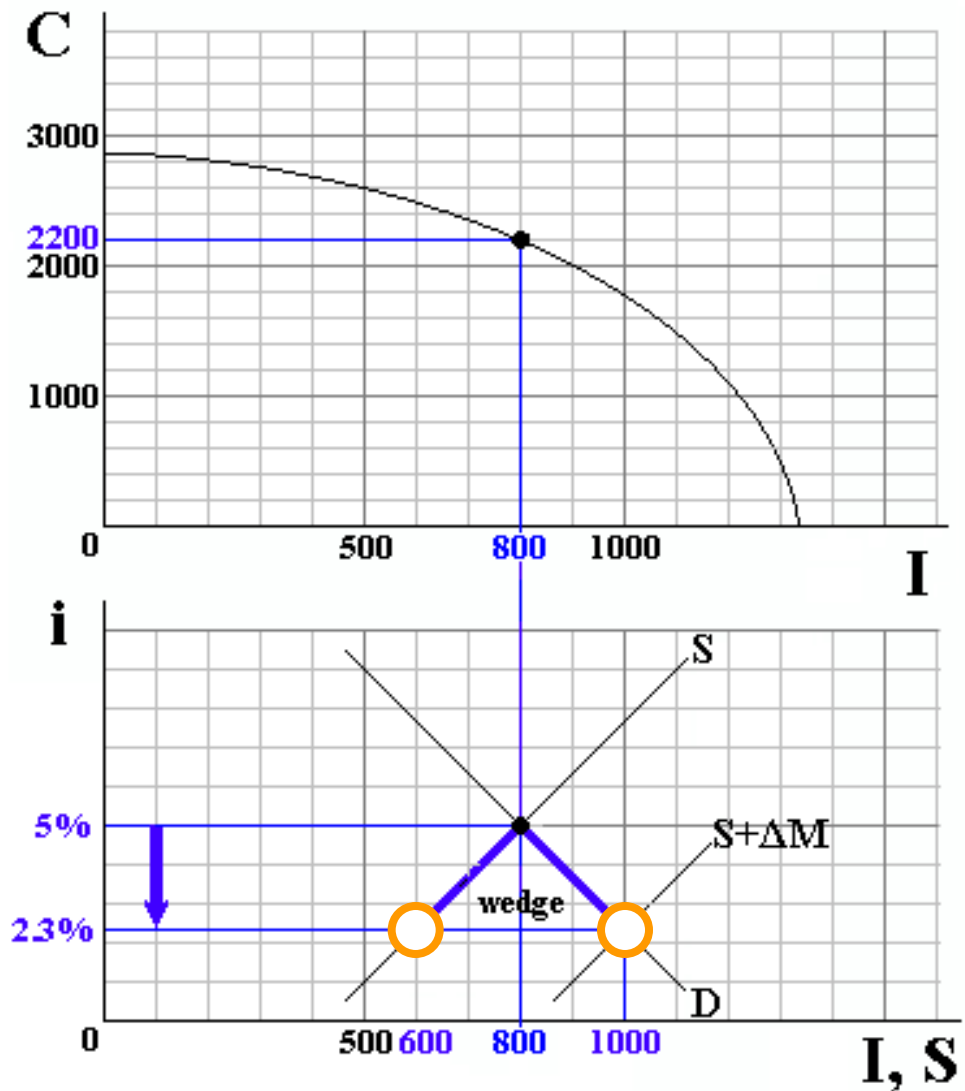


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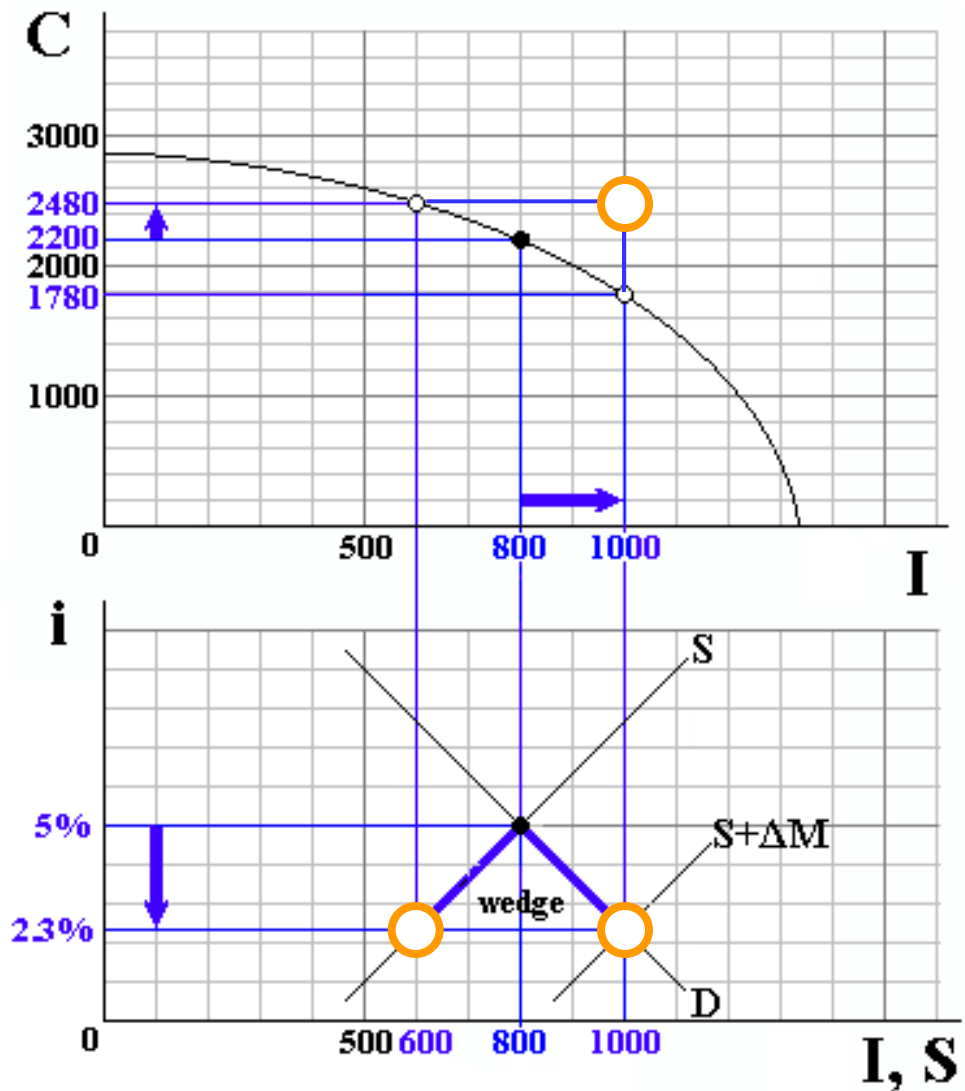


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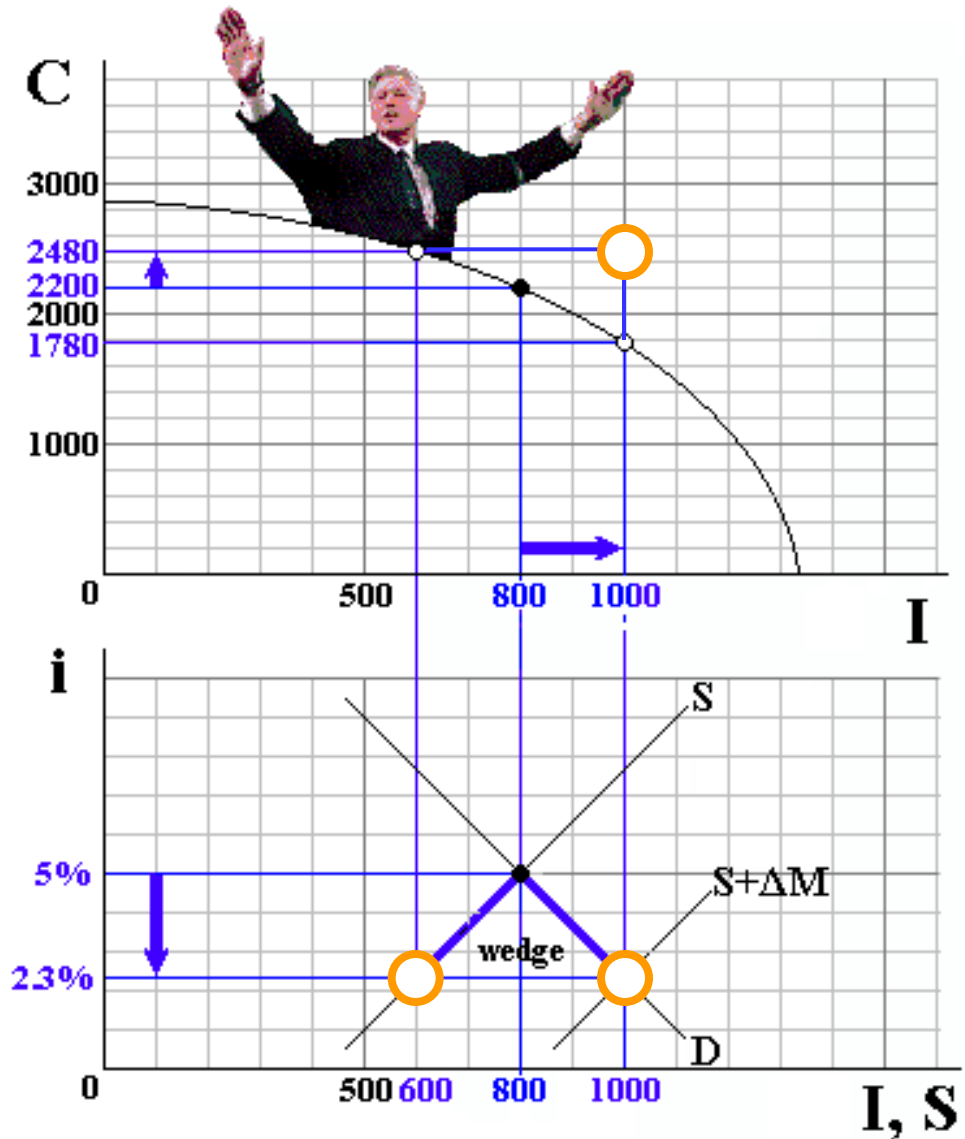


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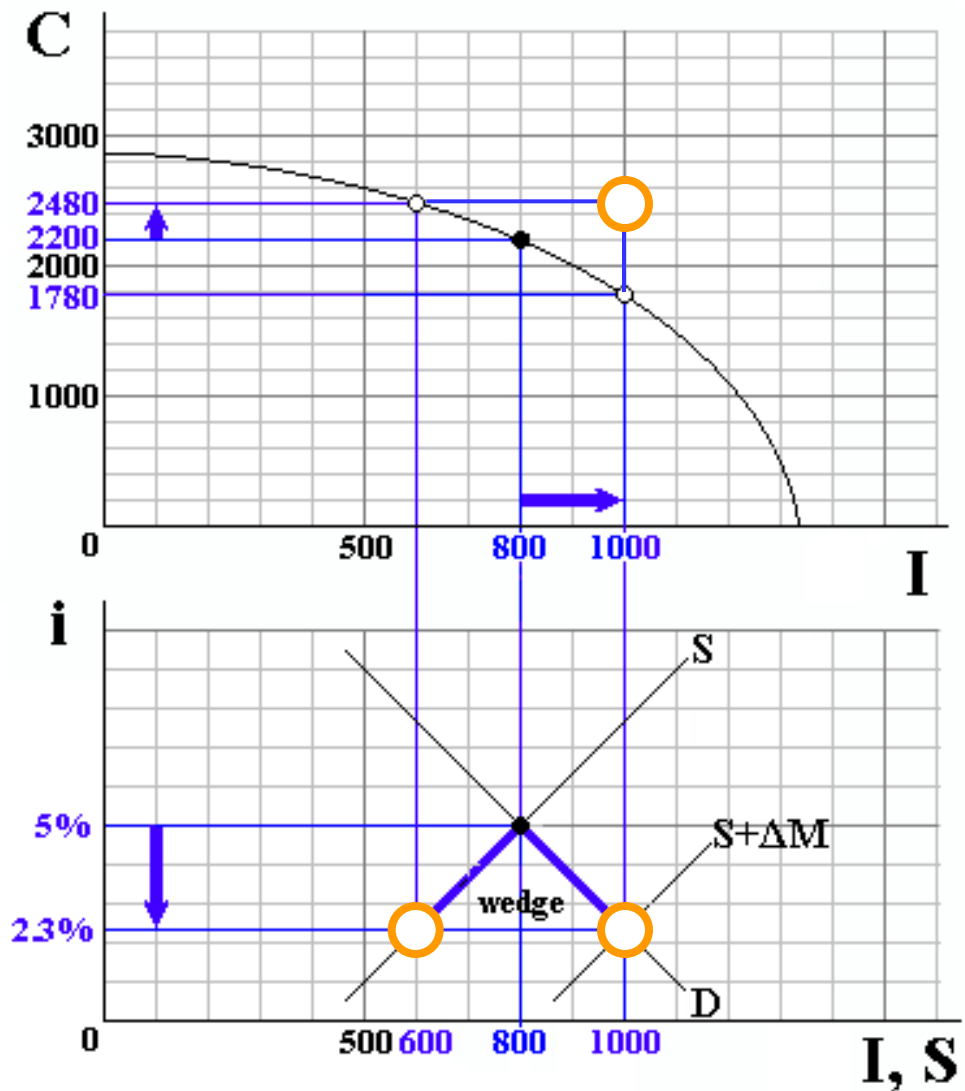


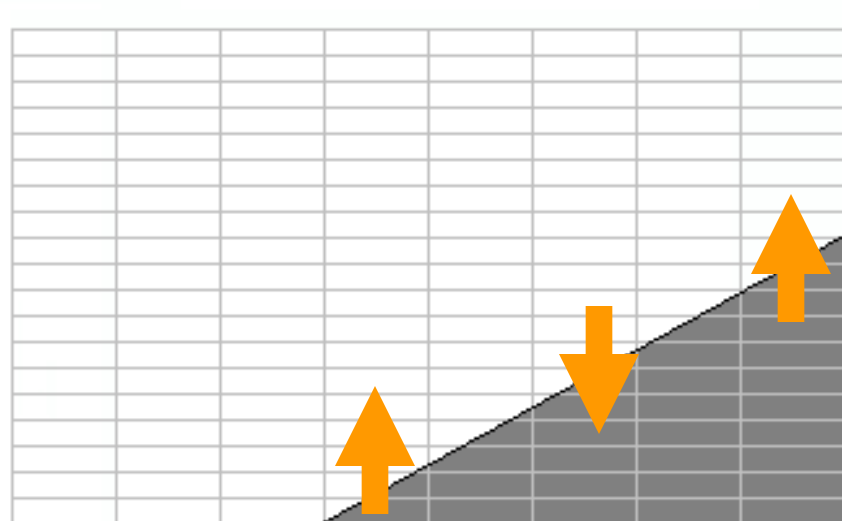
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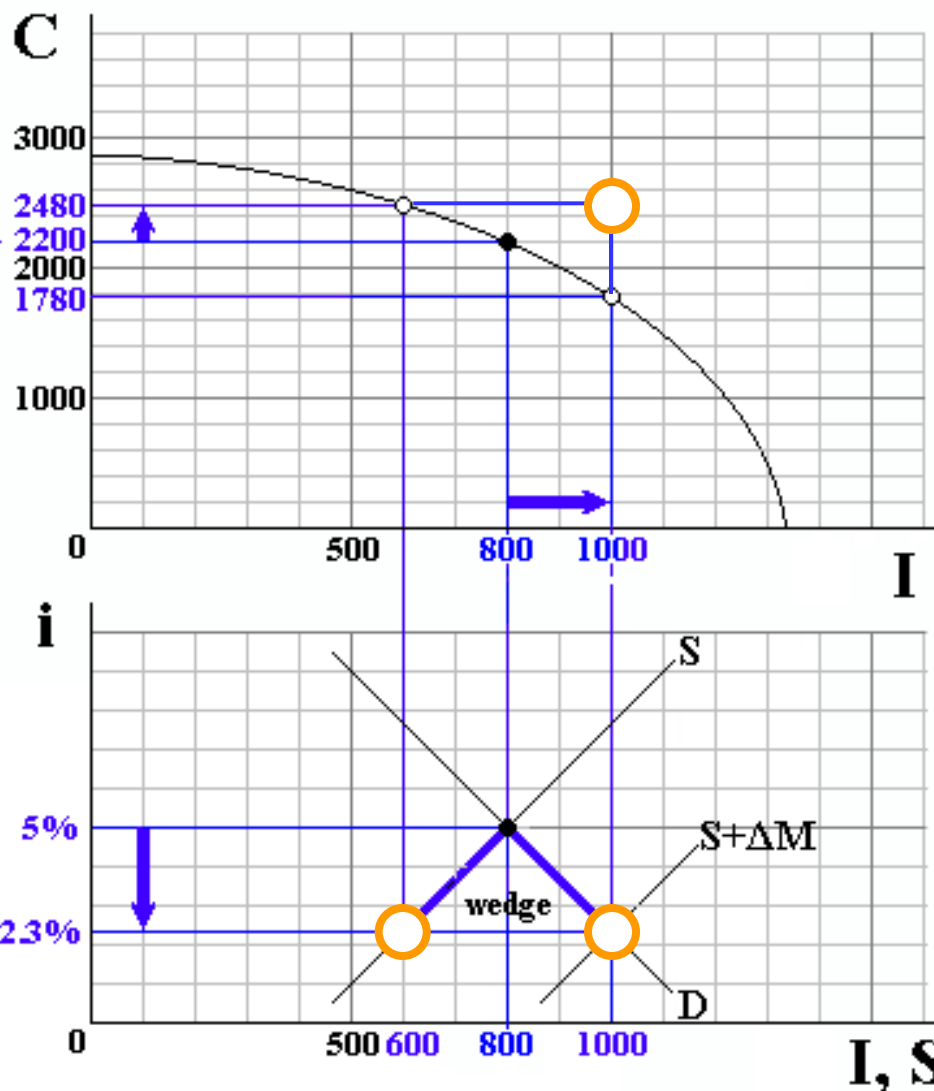


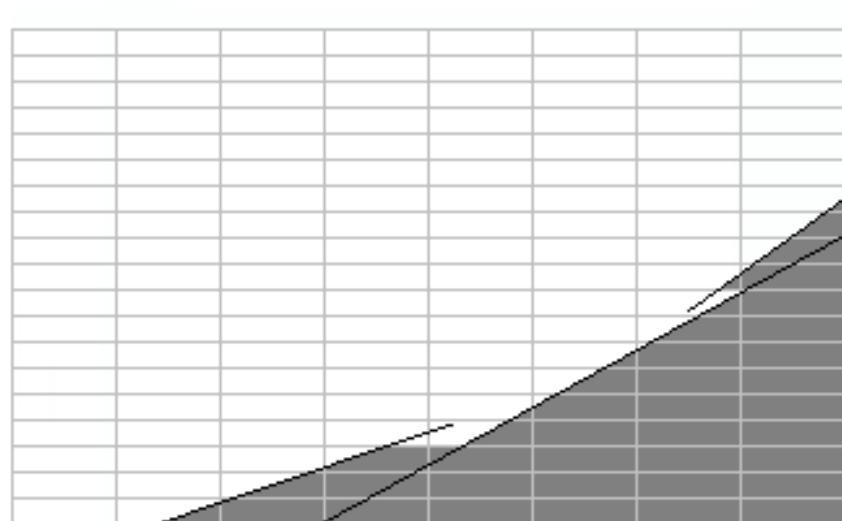


STAGES OF PRODUCTION

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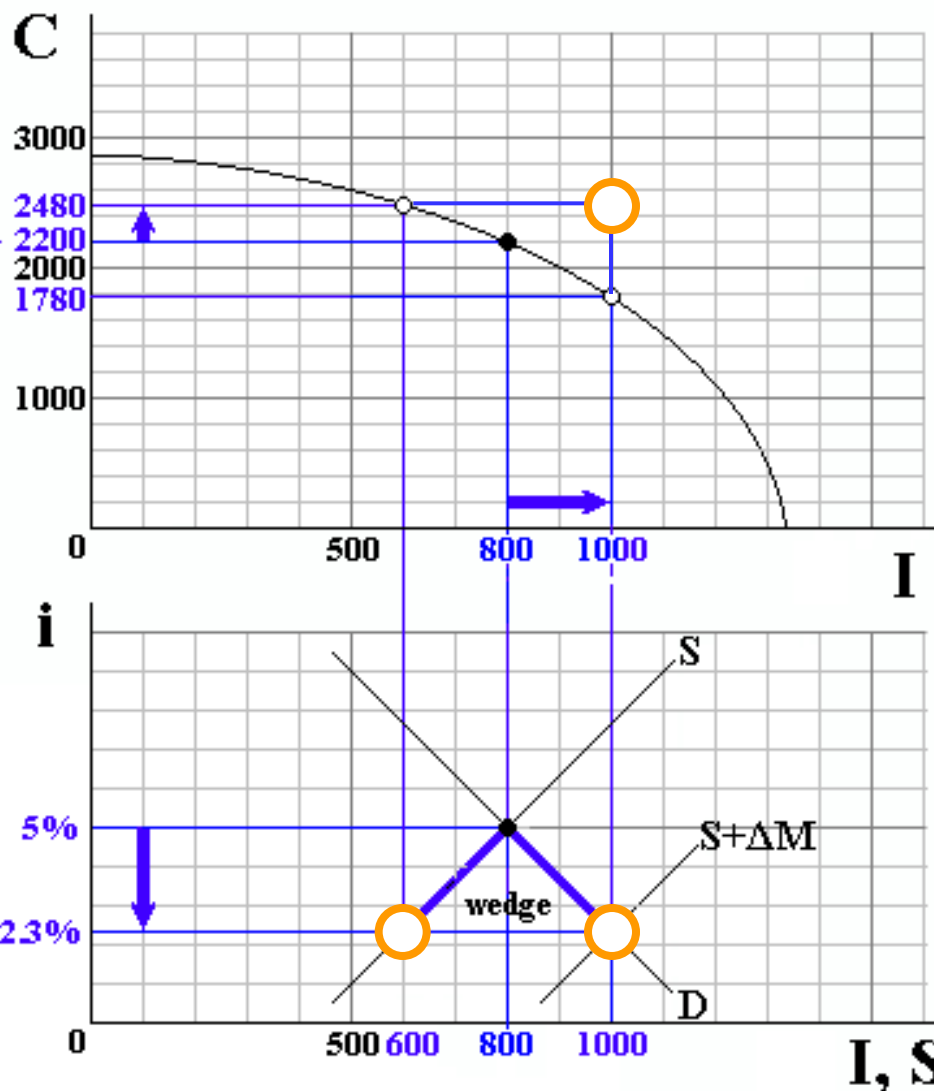


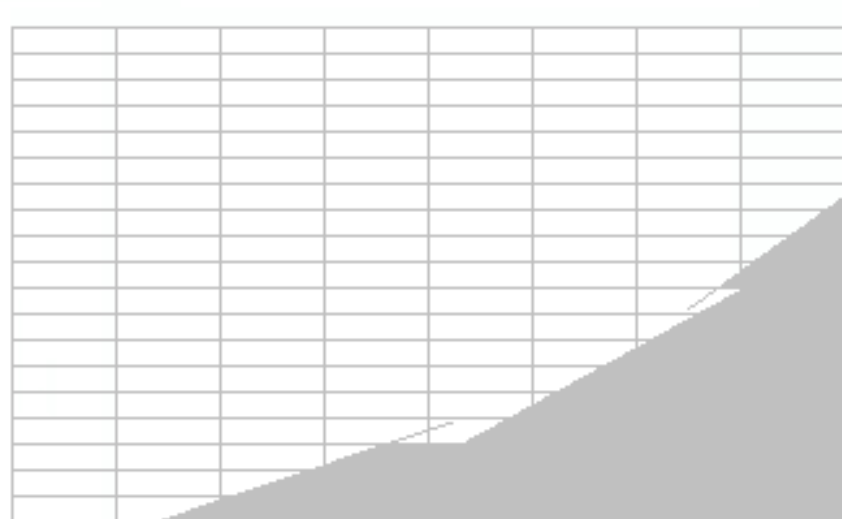


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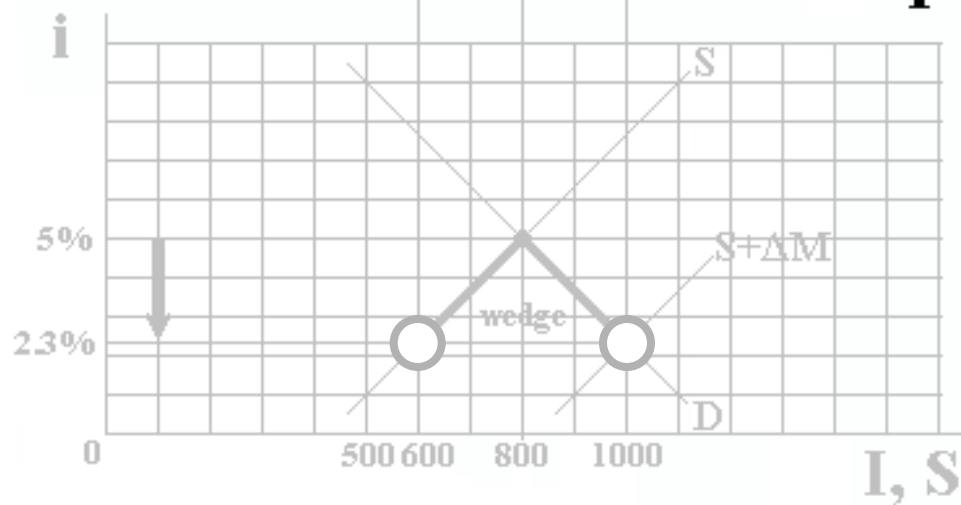
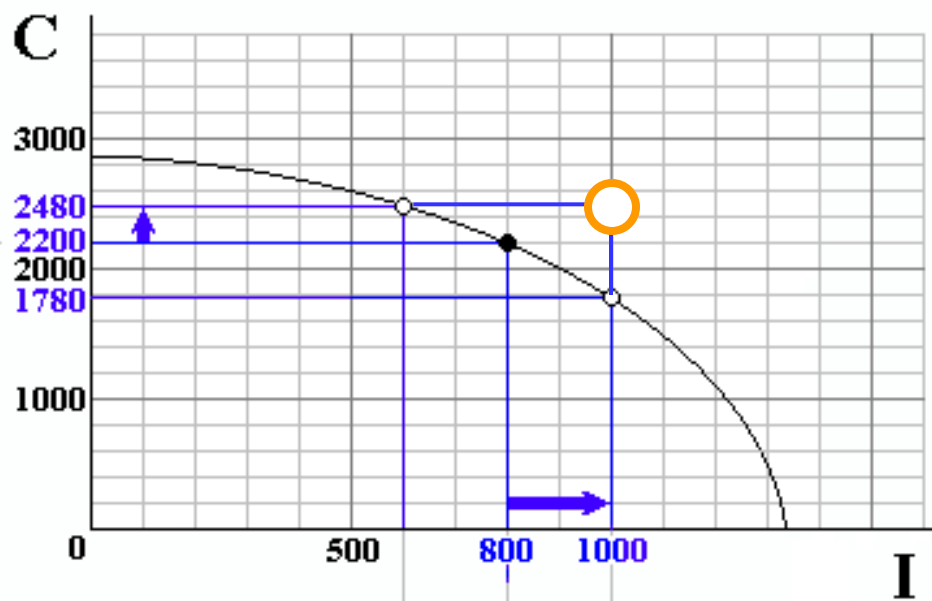
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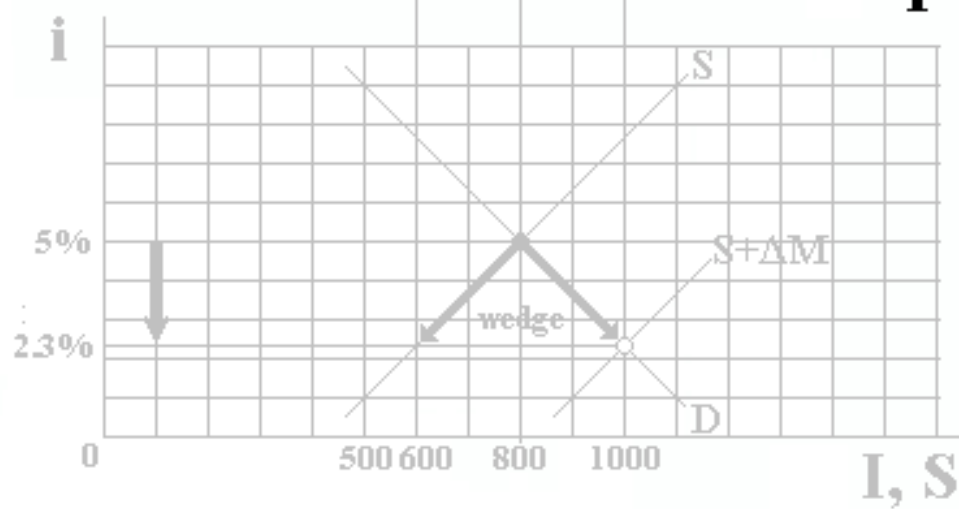
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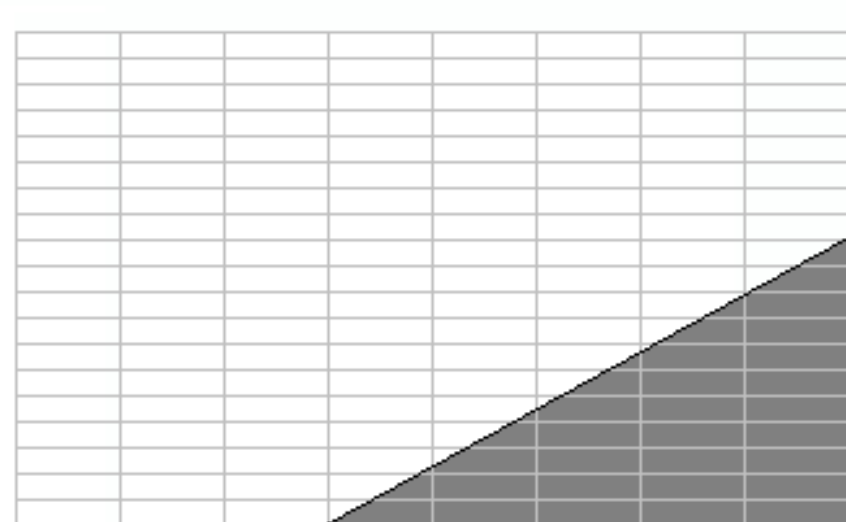




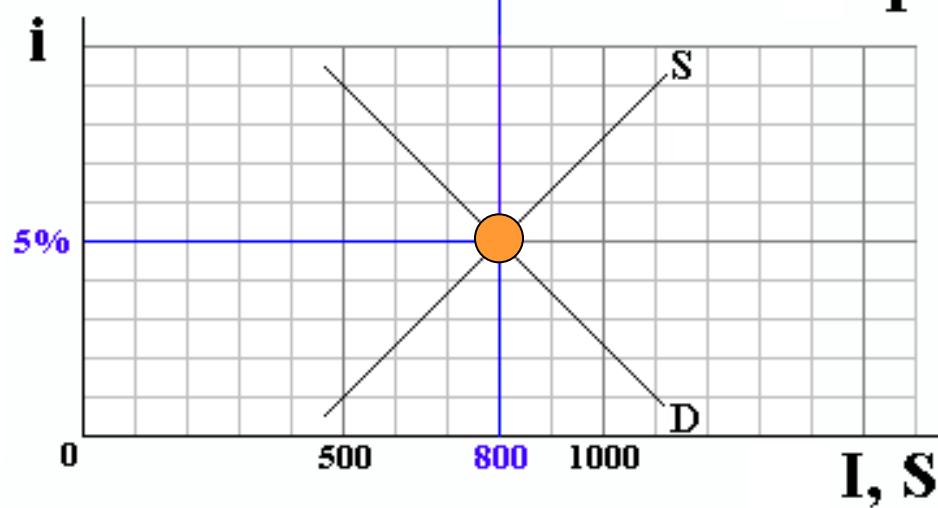
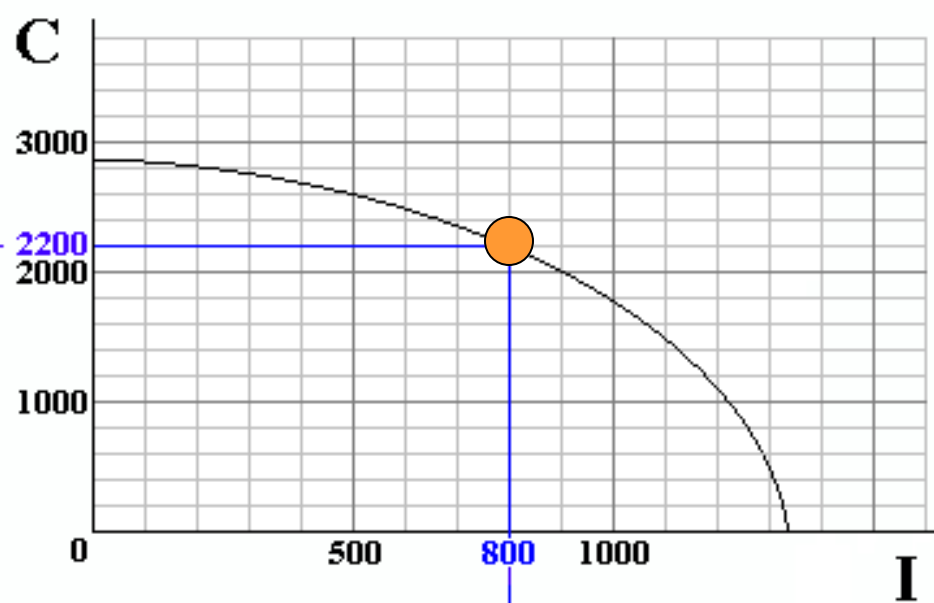
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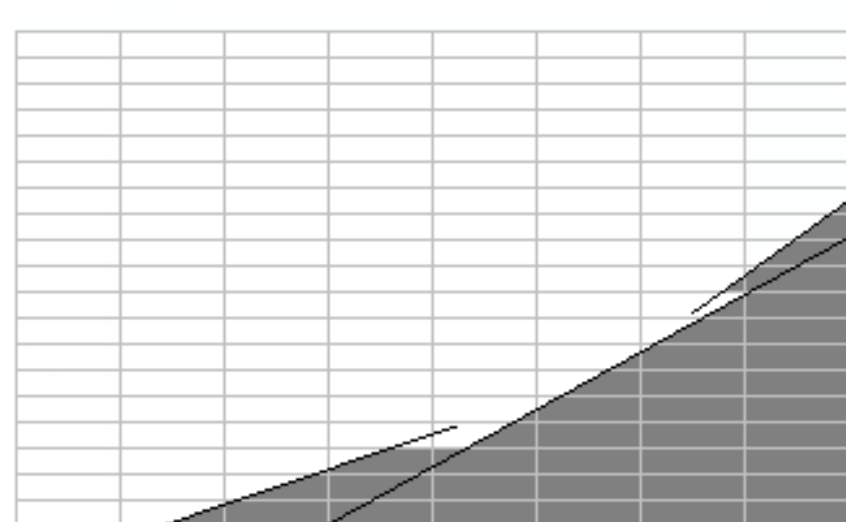




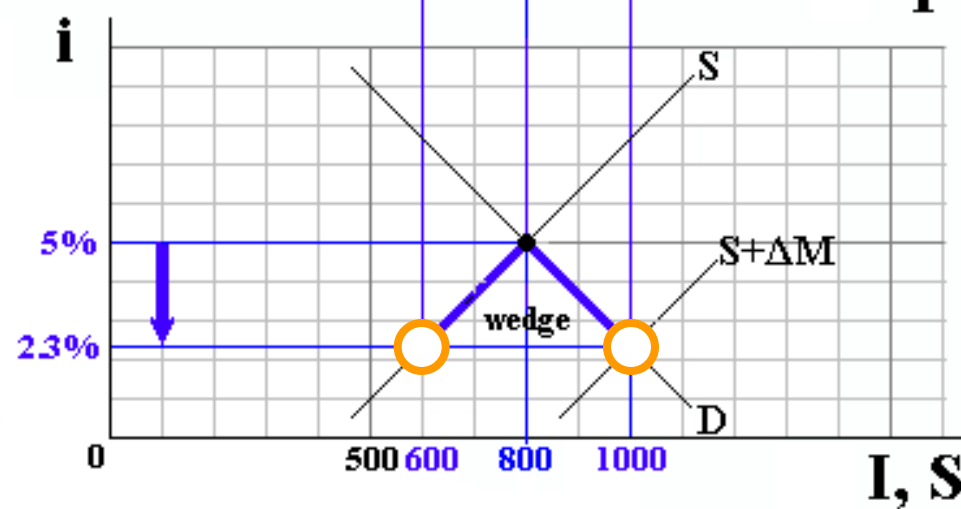
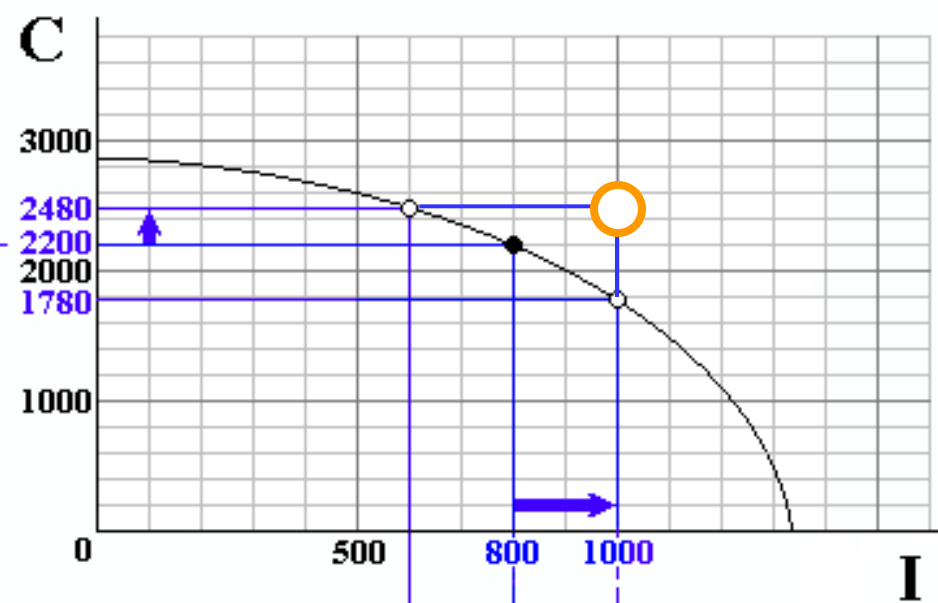


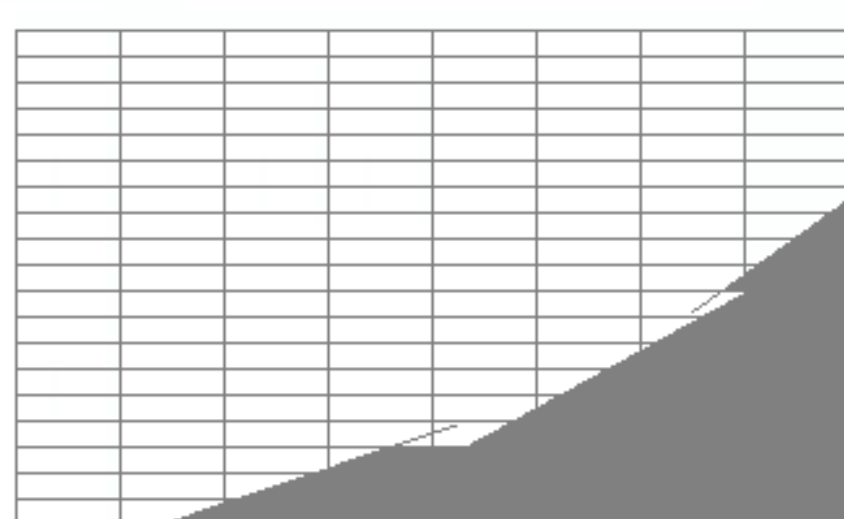
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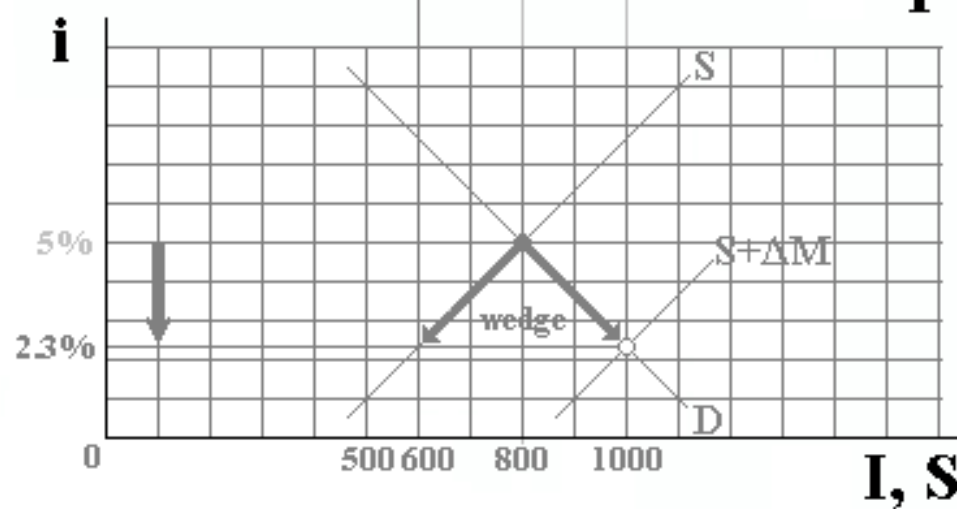
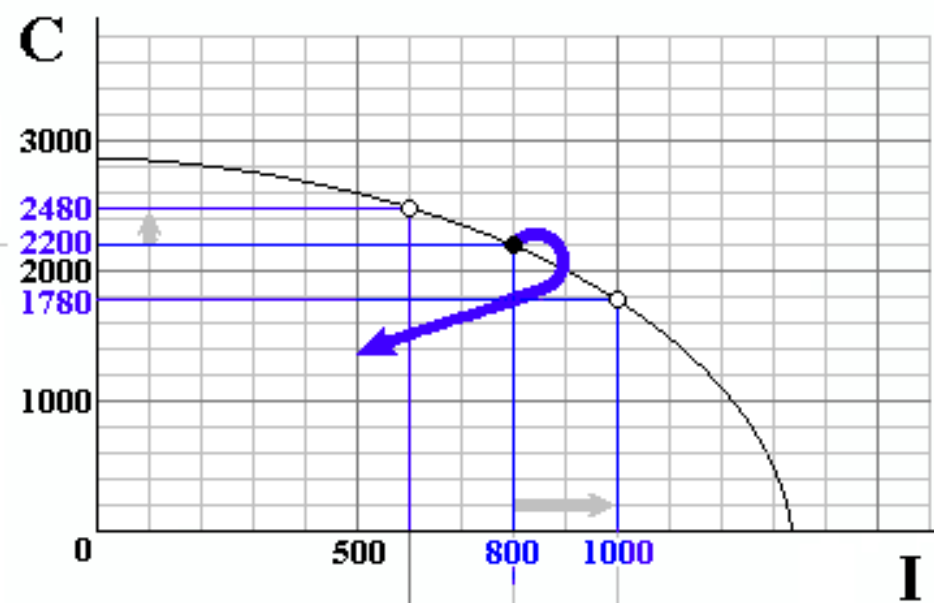


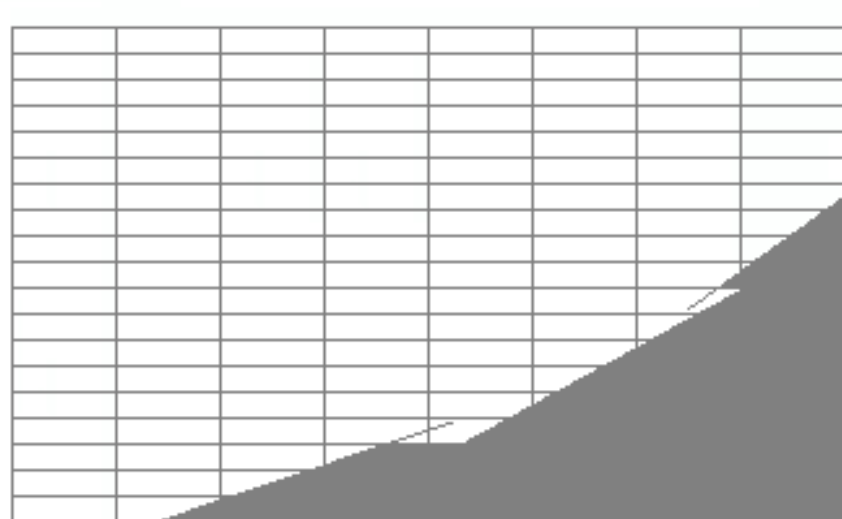
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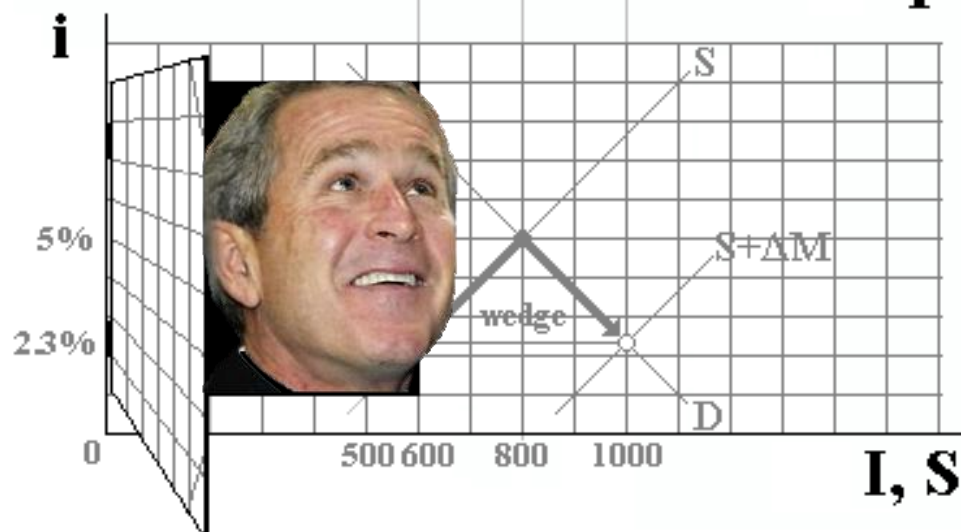
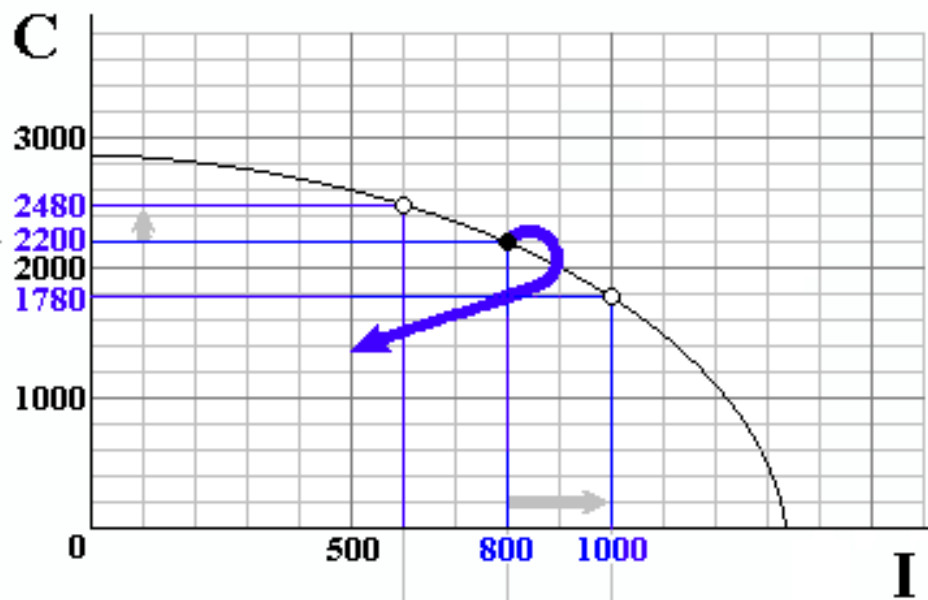


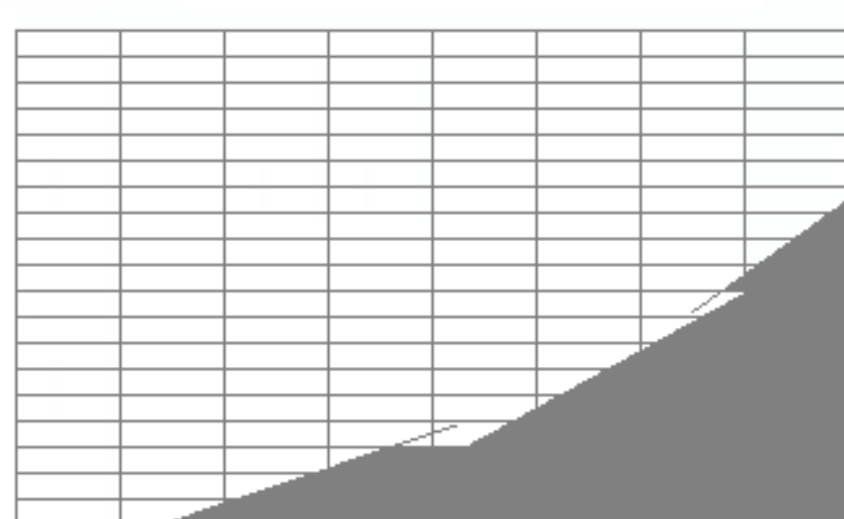
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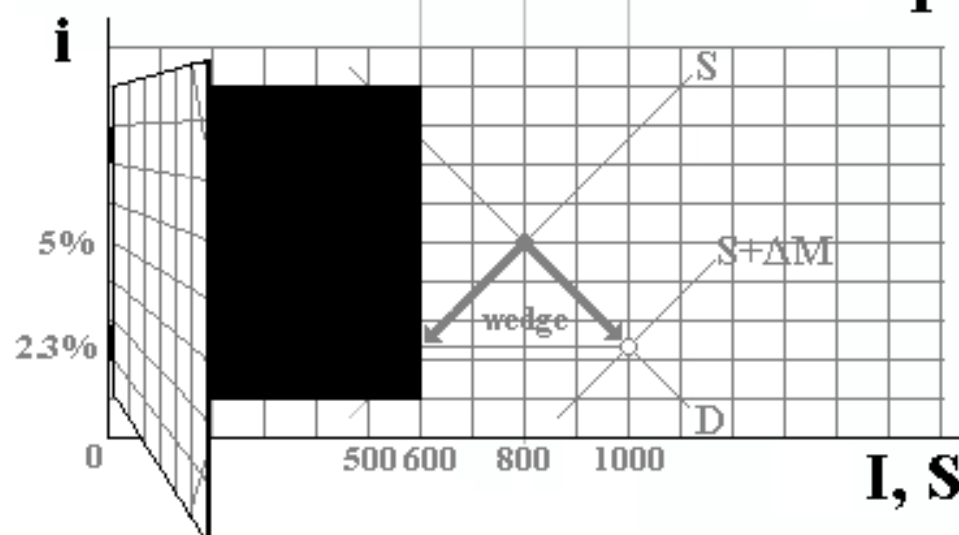
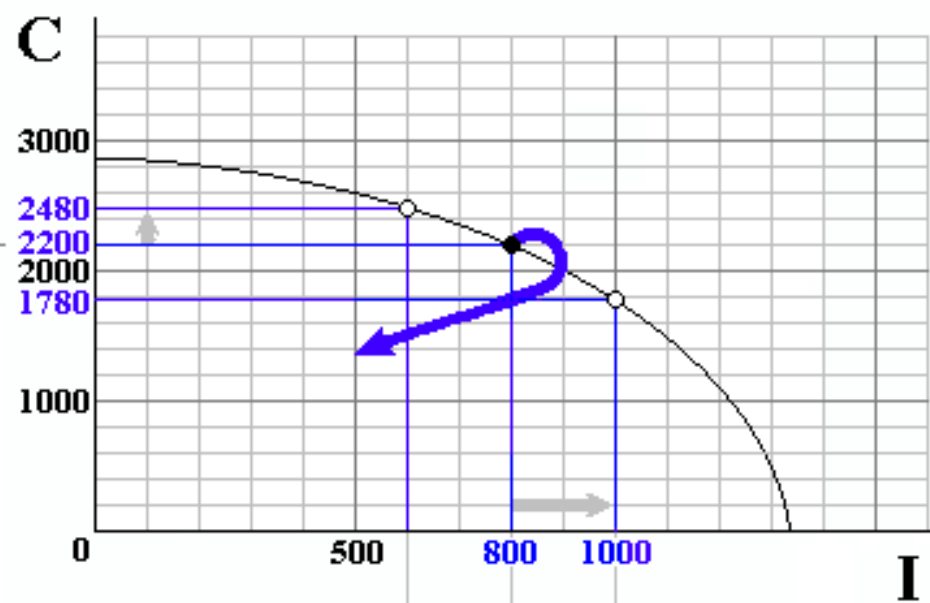


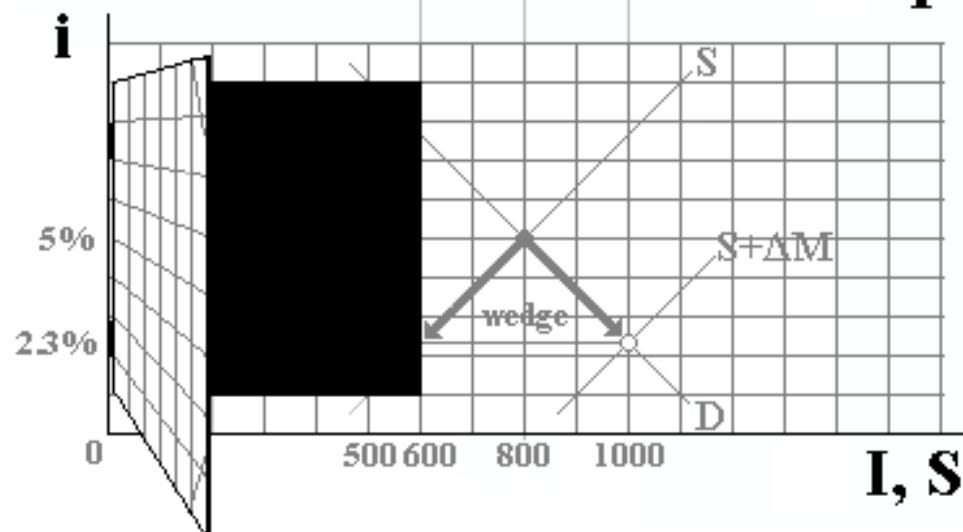
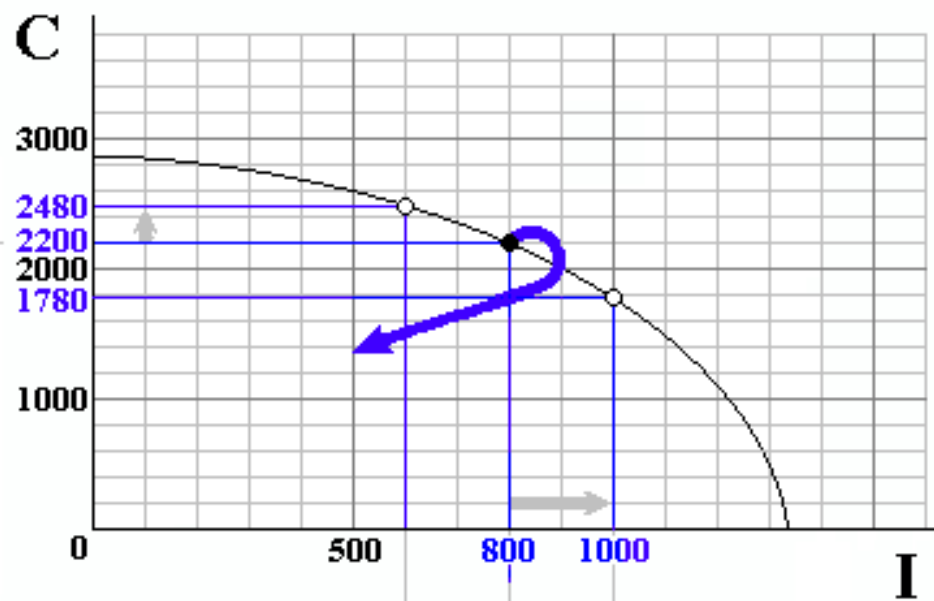
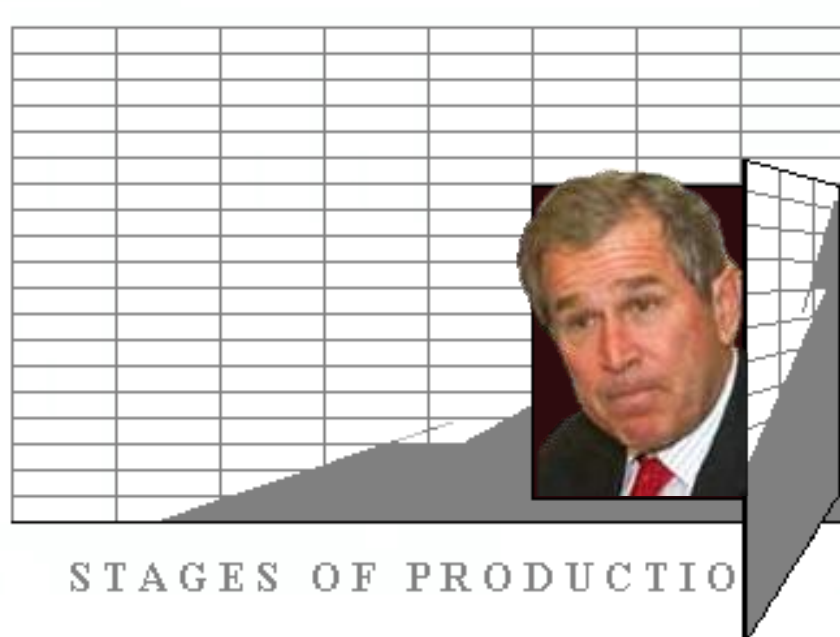
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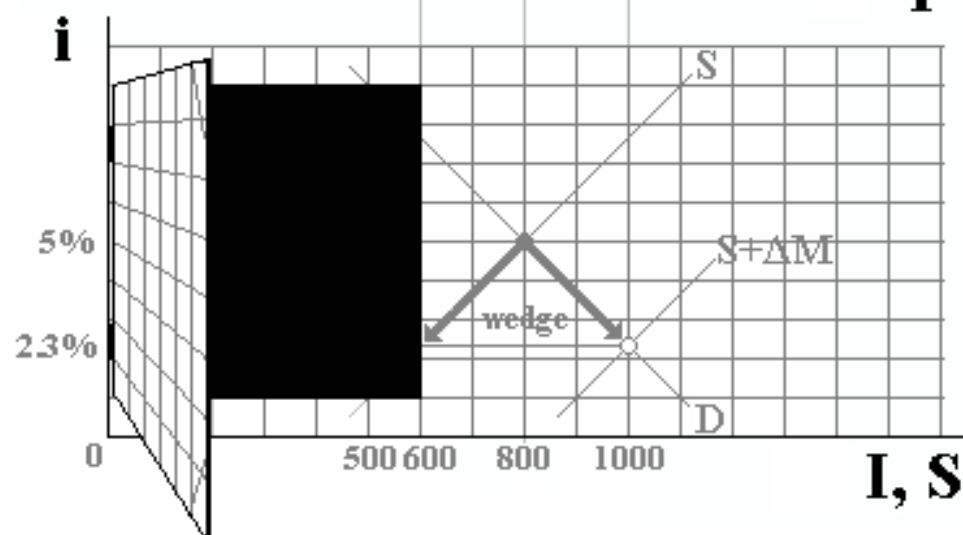
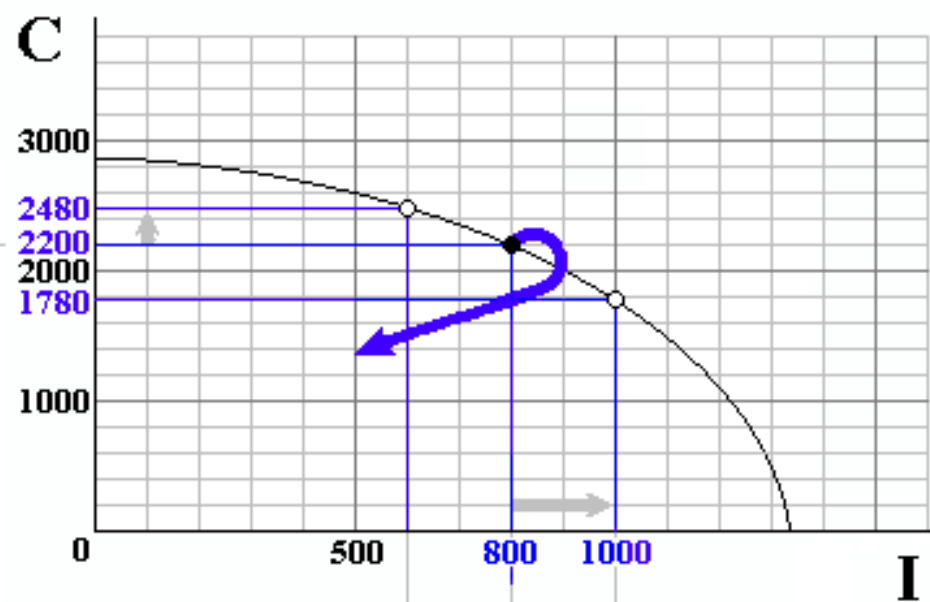
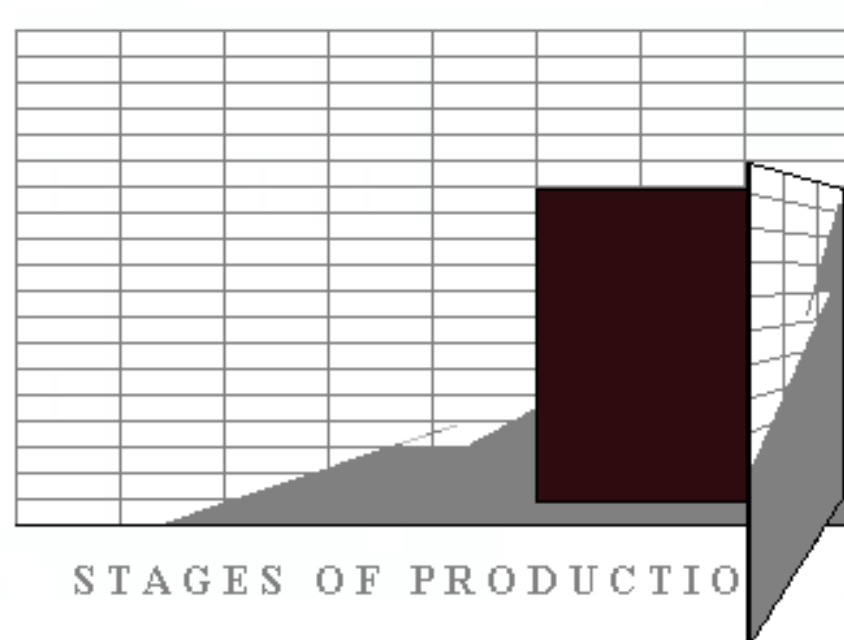


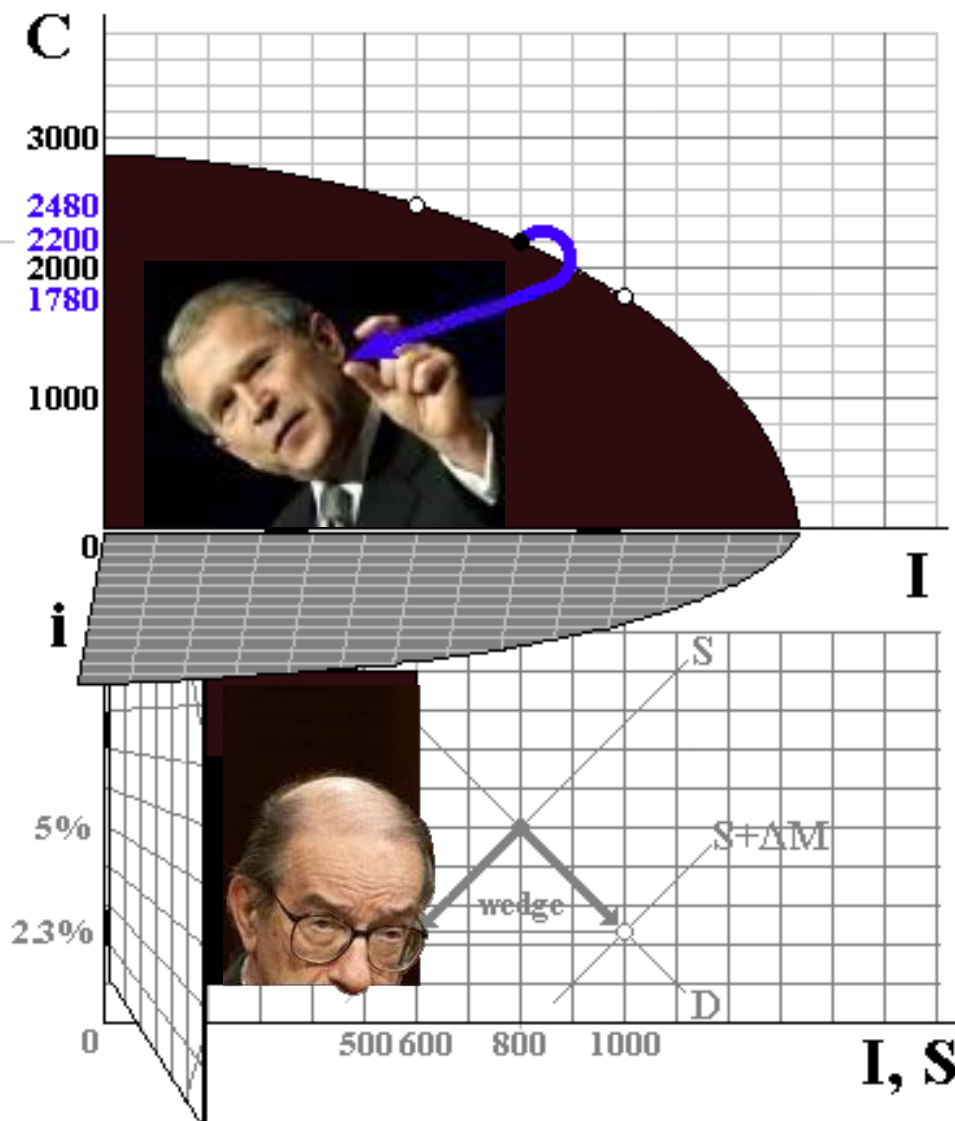
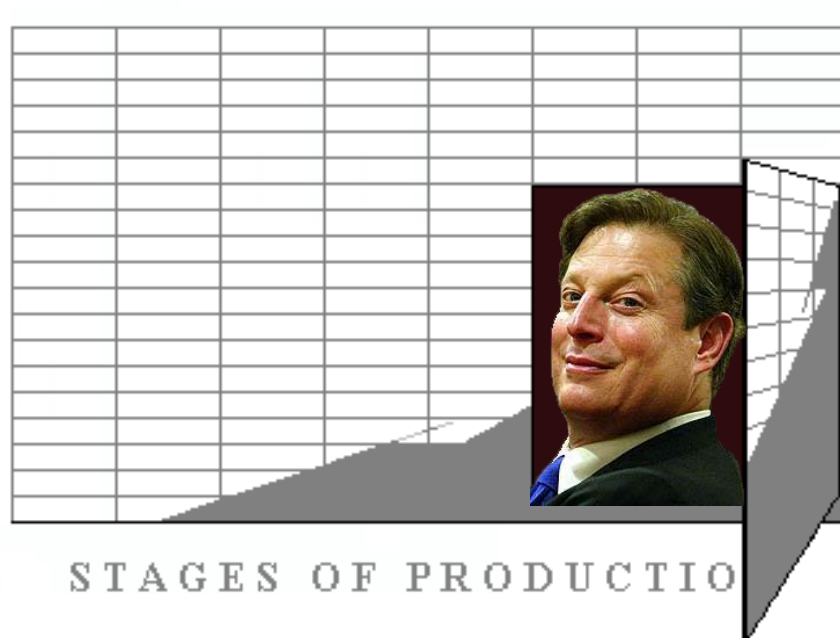


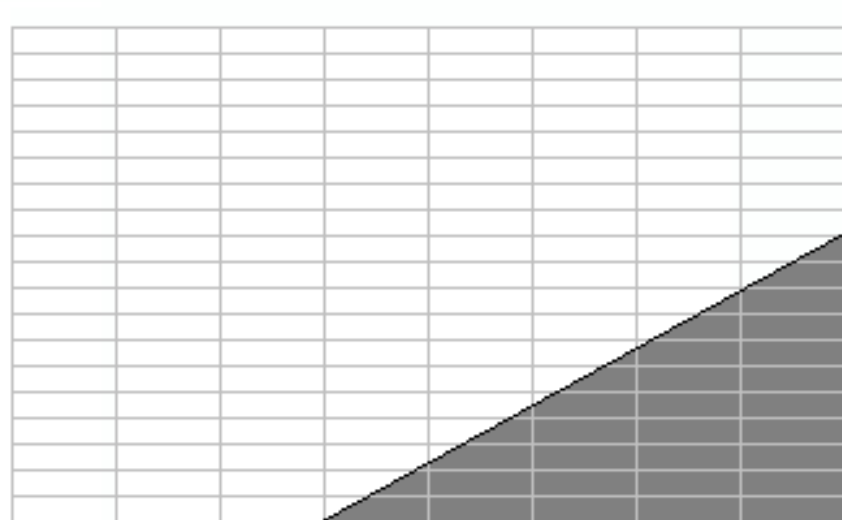
STAGES OF PRODUCTION





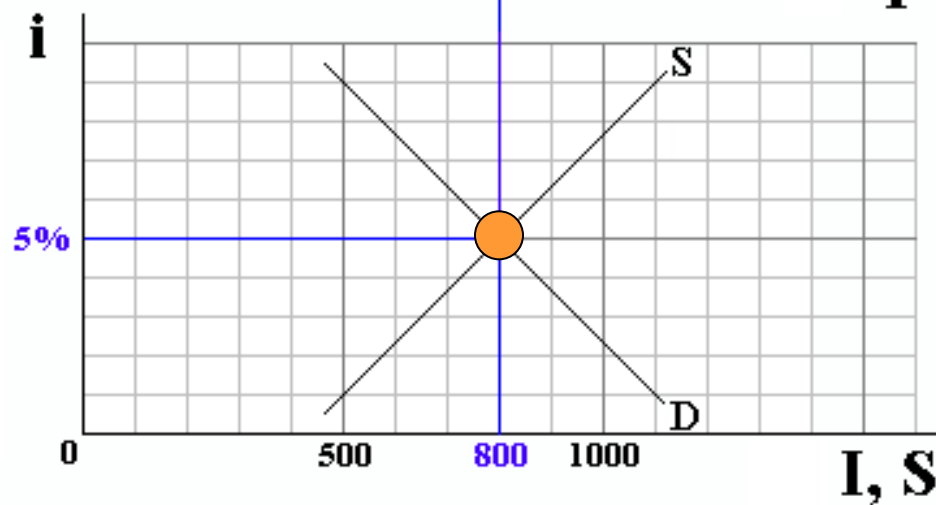
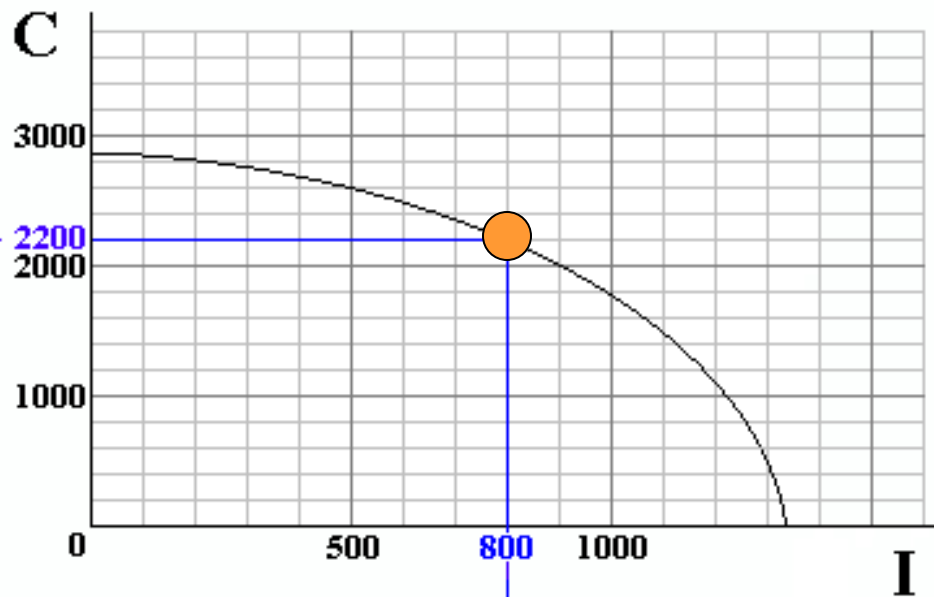


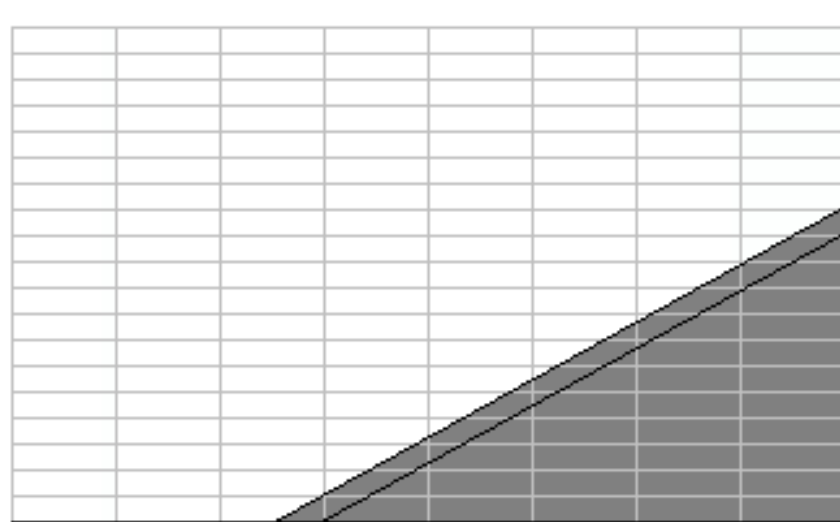




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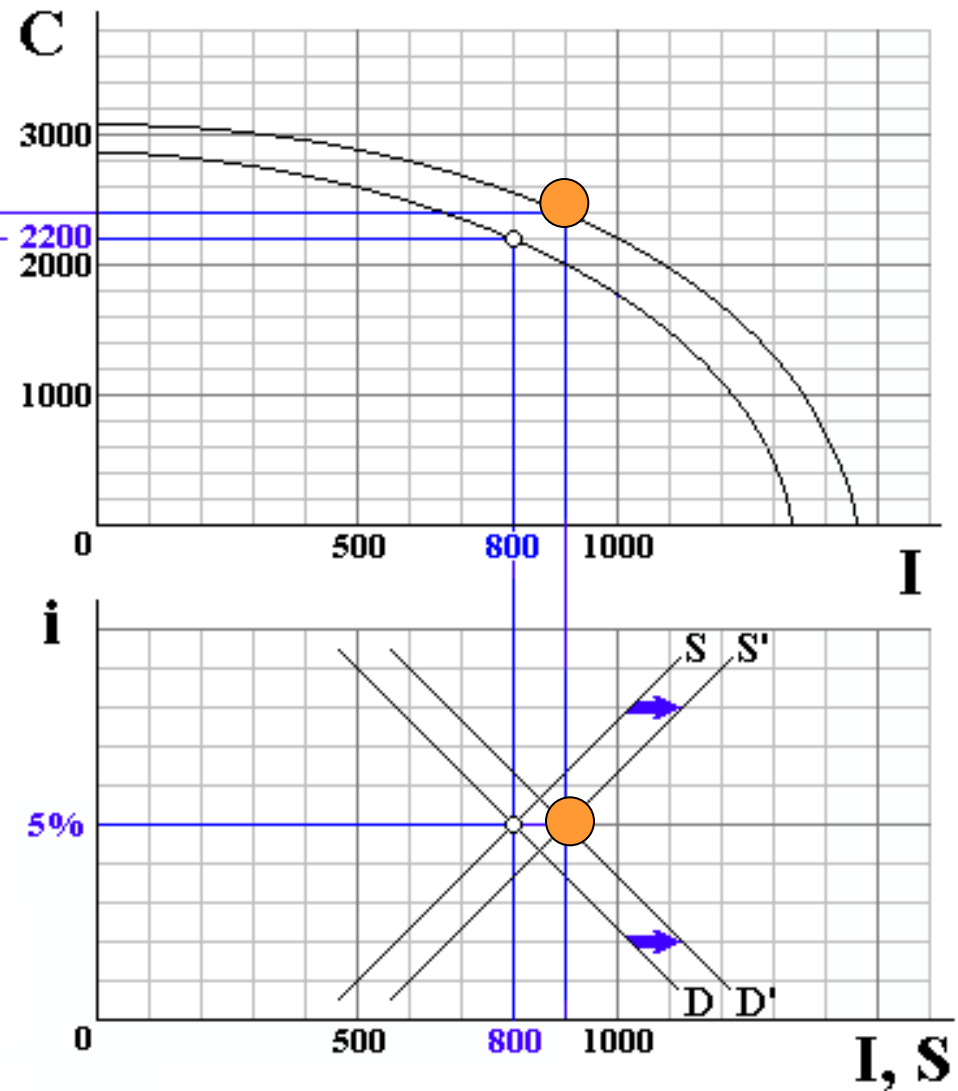
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Just let the economy grow.**

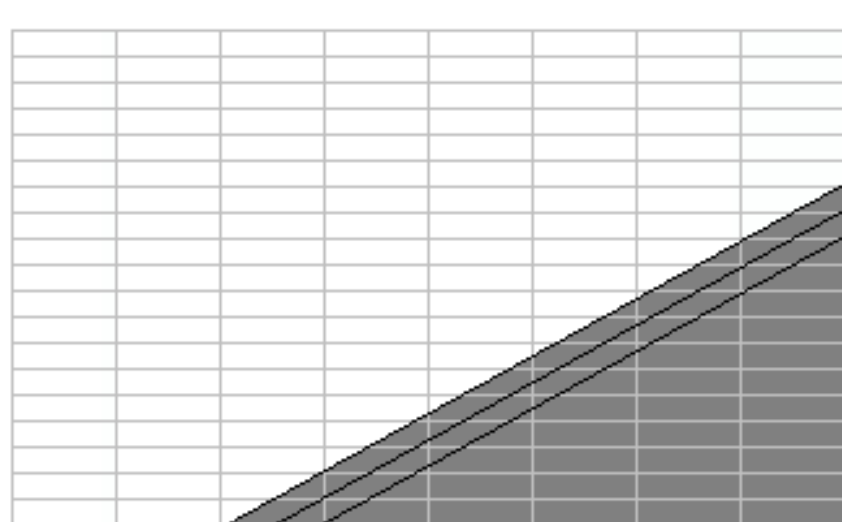




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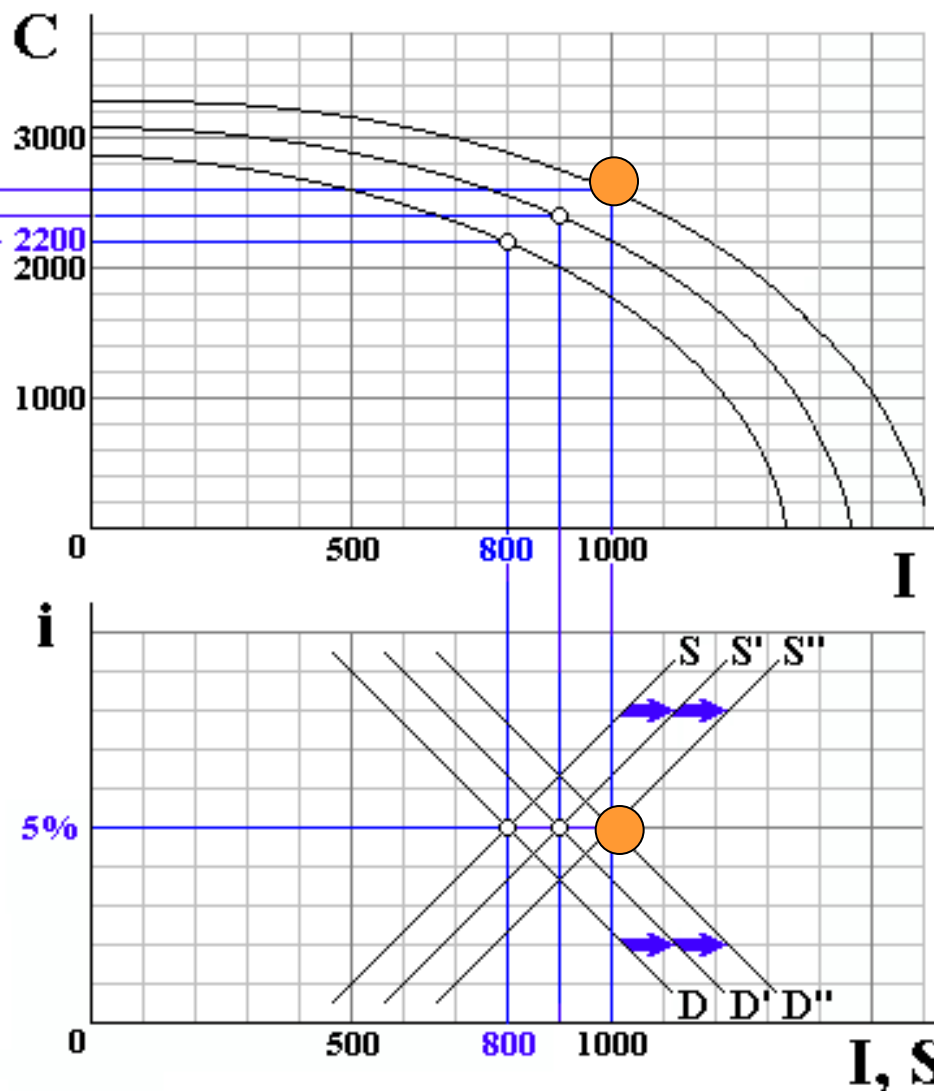
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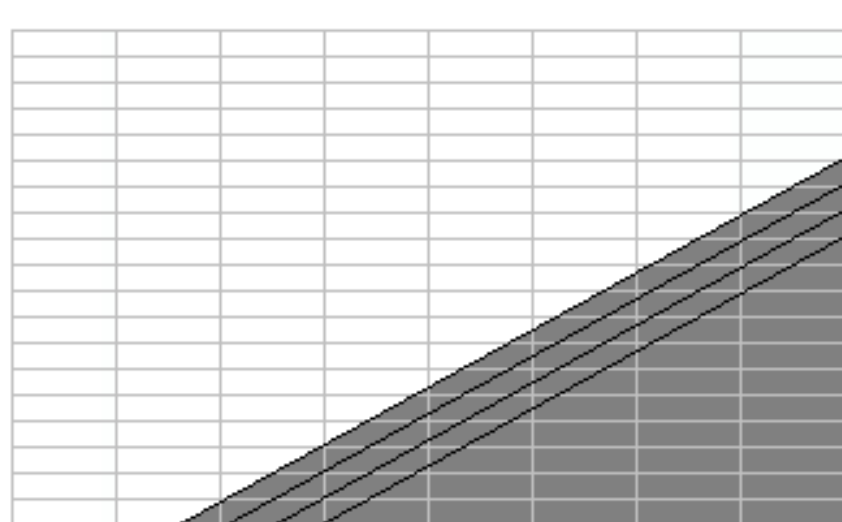




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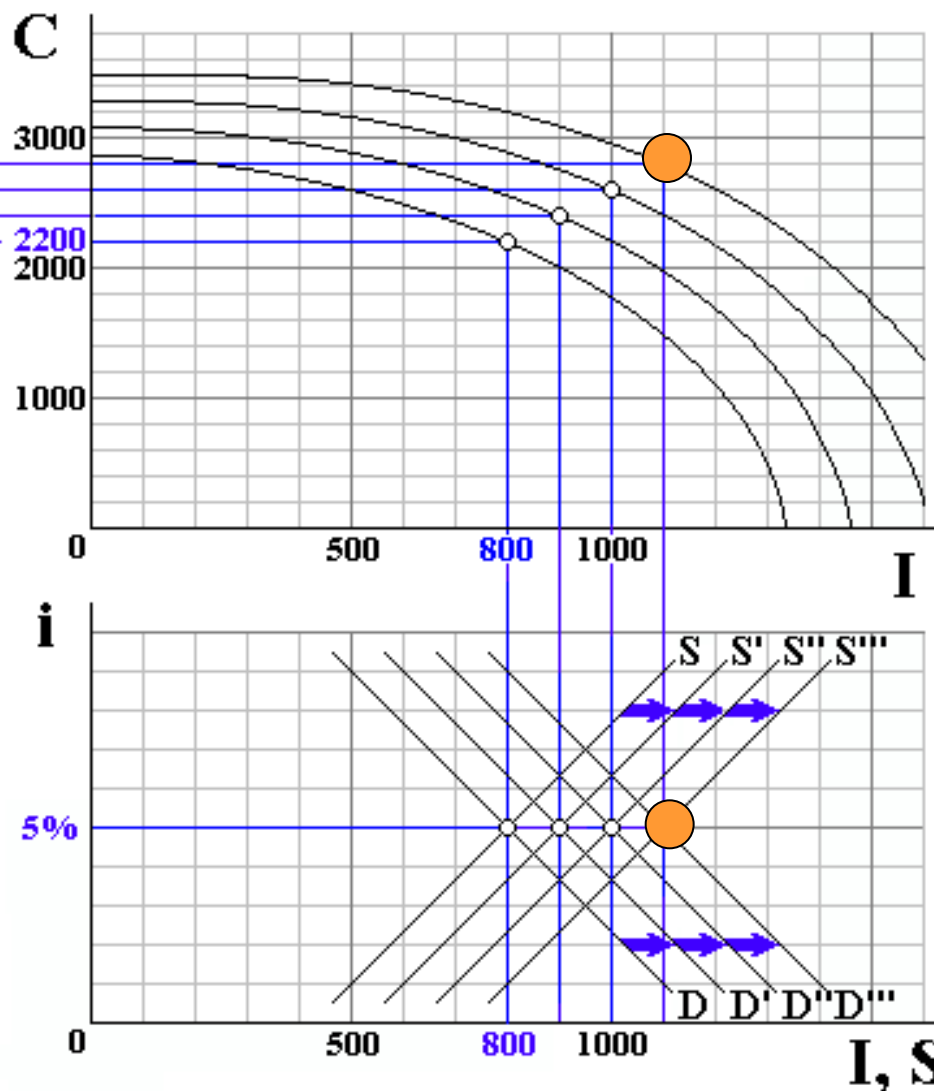
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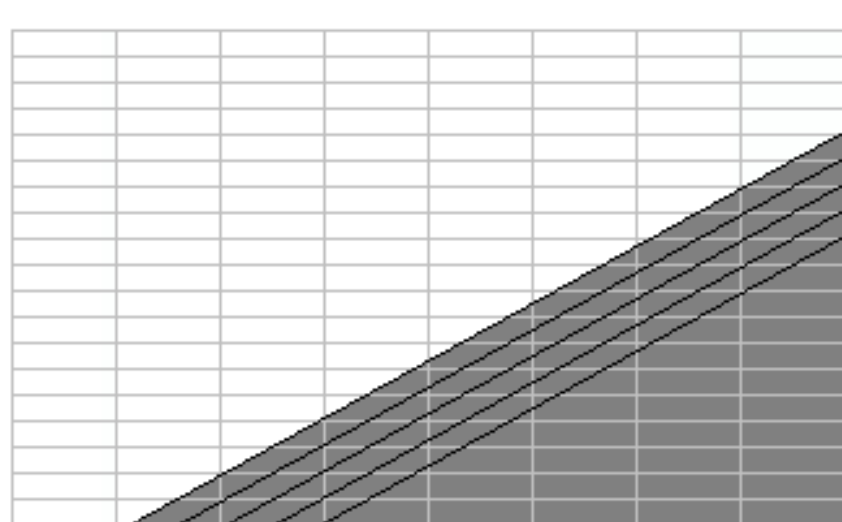




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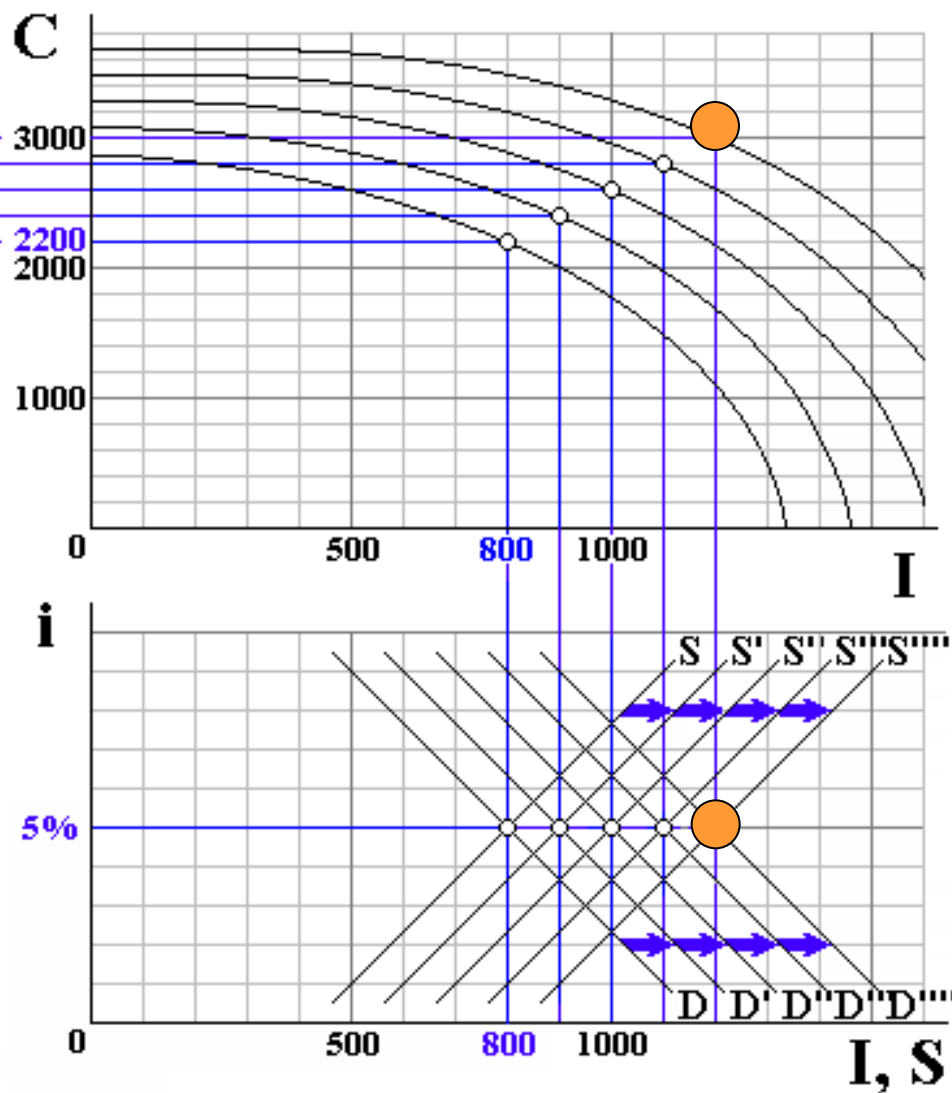
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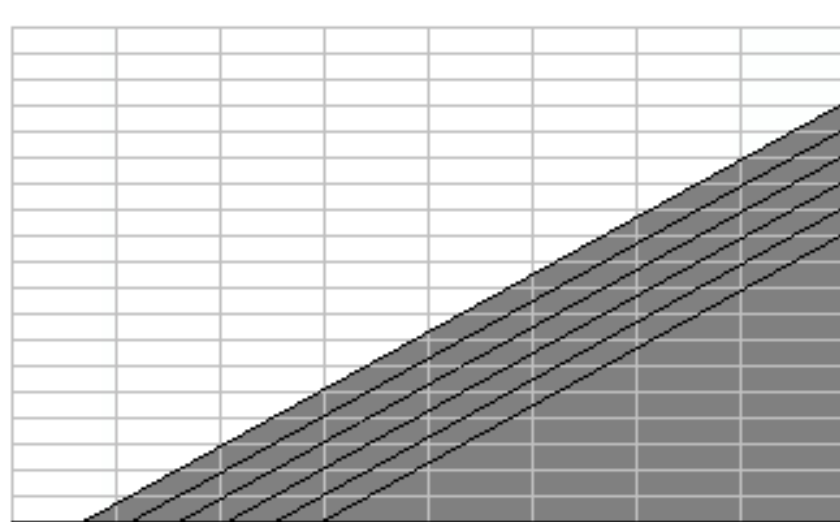




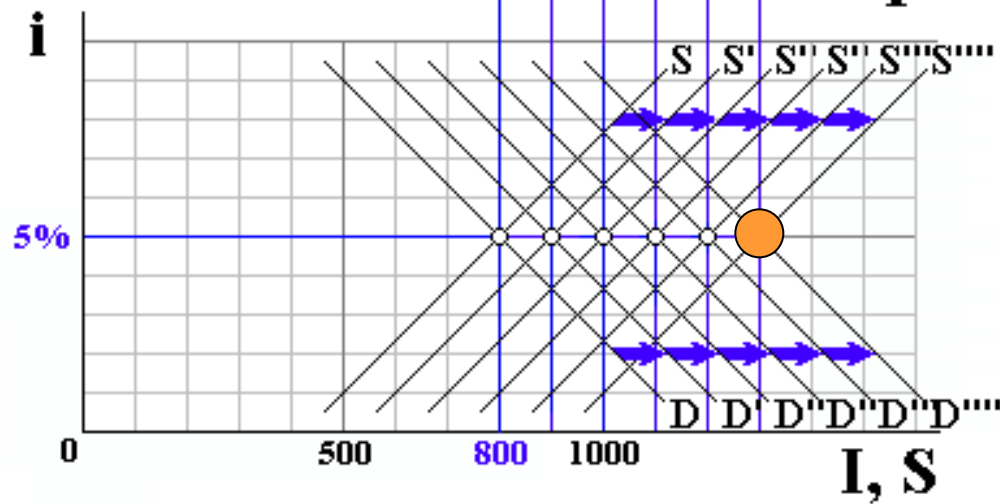
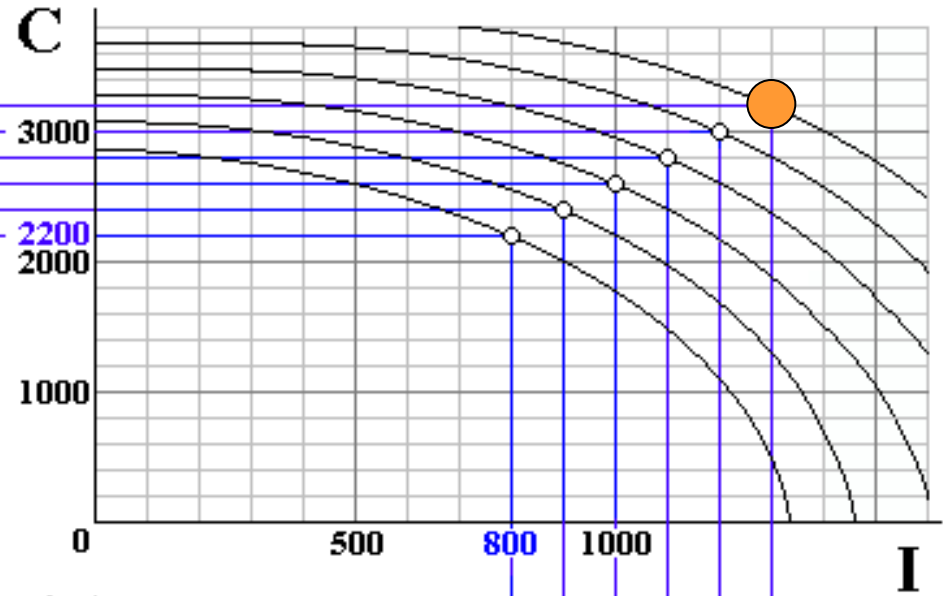
STAGES OF PRODUCTION

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STAGES OF PRODUCTION



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**F. A. Hayek
1899-1992**



For more on F. A. Hayek see: www.auburn.edu/~garriro