

## AUSTRIAN SCHOOL :

KARL MENGER : (1840 - 1921)

Karl Menger is recognised as the founder of the Austrian School of Economics. His most contributions to economics are namely, 'Foundation of Economic Theory' (1871), 'Enquiries into the Methods of Social Sciences' (1888) and the 'On the Theory of Capital' (1888).

The important economic ideas of Karl Menger are :

Methods of Economics : Menger recognised the importance of the deductive method as followed by the classical economist. He was a theoretical scientist who supported the classical theories. He however did not recognise the usefulness of the historical methods. Menger commented that the endeavours made in Germany to remove the unsatisfactory conditions of the political economy led to those conceptions which

Repeared the German National Economy from the literary movements of other countries.

Theory of Imputation or Value: In this theory of Imputation or value, Menger maintained that value of a commodity was a result of the demand of and supply of available supply of commodities.

Menger came to the conclusion that a increase or decrease in the supply changed the value of a commodity. He maintained that when supply of a commodity was increased its additional units had a less want satisfying power. For him value meant significance or utility. Menger criticized those writers who recognized the quantity of labour or other means of production as the only factors of production, essential for reproduction of a commodity.

Theory of Exchange: According to Menger the idea of exchange was very similar to the barter system. In his opinion the exchange was a economic process

which was adopted by the masses for a more complete and better satisfaction of human desires. He felt that exchange only takes place when the value of the commodities exchanged is not equal to the consumer. As a result the terms of exchange would become equal to the number of exchanges. But in case of monopoly the upper and lower price limits will be decided by the number of competitors among consumers.

Money: Menger believed that money was a result of a gradual process of evolution. In the early stages, the commodities having the highest acceptability and "service" were found to be the most important forms of exchange. He believed that money has two types of value - internal and external. The former is related to the purchasing power of money.

while the latter is related to its own price in determining the exchange rate in relation to the other commodities. He laid more emphasis on the study of money, so that the related problems may be solved immediately, and it could maintain stability in the economy.

### EUGEN VON BOHM-BAWERK (1851-1914)

He was an Austrian economist and was the brother-in-law of Wiesner. After his education he served for many years in the department of finance of the Austrian Government. His main economic ideas are as follows:

Argo Theory of Interest - Bohm Bawerk's main contribution is in the field of interest. He deals chiefly with the studies and explanations of causes of interest which channel a part of the national income into the hands of the capitalist. It was really a problem of distribution of goods. His Argo Theory of interest

which recognises the rate of interest as the  
agio or premium on present goods when exchanged  
for future goods. This is the most significant  
theory of interest which is recognised even today  
as the foundation of the classical and neo-  
classical theory of interest.

He wanted to use the marginal  
Utility Theory in determining his theory of  
interest. He also wanted to check the growing  
influence of Karl Marx.

Bohm-Bawerk deals with the  
subject of value and classifies goods into:  
complementary and final goods. Since, the capital  
goods satisfy the future wants, these goods suffer  
a discount for three reasons: (1) difference for wants  
and the provision for wants between the present  
and the future (2) undervaluation of the future  
(3) technical superiority of the present goods.

It is with this view that interest emerges. The interest is, thus, a kind of reward for his waiting.

Marginal Pair Theory of Value: Bohm-Bawerk used the idea of marginal utility in his theory of value. In this regard he has followed the analyses of Karl Menger but with an unique exposition. He has discussed the problems of exchange transaction in different conditions of the market.

The conditions of Marginal Pair can be best understood under the conditions of perfect competition. When there is a group of potential sellers and a group of potential buyers, then the price will be determined between the limits to be set by the two marginal prices:

Bohm-Bawerk used subjective approach in the development of his theories of interest and capital. Among the Austrian thinkers his

contribution is regarded as the most significant and valuable. He got as Schumpeter says, "immortality on account of his original fruitful original ideas, far-reaching constructive power, brilliant power of presentation, outstanding gift of leadership and all the qualities and characters which are the mark of a teacher in the most exalted sense of this word."