America's Great Depression **Notes, Chapter 1, Part 1**

I. The Positive Theory of the Cycle
  - ***A.*** We *need* a theory to interpret data; just the data is not enough
  - ***B.*** Data alone can be interpreted an unlimited number of ways
  - ***C.*** Any business cycle theory must be integrated with the rest of economics
  - ***D.*** If it's not, either the business cycle theory or the general theory must be wrong
  - ***E.*** We must reject proposed explanations that don't fit into general economics

II. Business <u>cycles</u> versus <u>fluctuations</u>
  - ***A.*** The economy is always changing
  - ***B.*** Stabilization is a fool's errand
    - ***1.*** Predictable cycles should have "booms" and "busts"
    - ***2.*** 7-year locust example: bad idea to keep anti-locust industry humming on other 6 years
  - ***C.*** Fluctuations move goods between industries
  - ***D.*** Periodic cycles are not the topic here, they are not relevant to the theory of general booms and busts

III. General price changes must come from monetary sphere disturbances
  - ***A.*** *What about disasters?* These have a known causal structure and are comprehensible outside of business theory
  - ***B.*** *Is Rothbard being unjustifiably positive?* Destruction of one or a few goods with high substitutability may lead to more general depressions

IV. Why a sudden cluster of errors?
  - ***A.*** No reason for entrepreneurs to all make the same mistake at the same time
  - ***B.*** Bank credit expansion sends incorrect signals to entrepreneurs
  - ***C.*** Time preference is a real thing
    - ***1.*** Time preference plus a loan market leads to a natural, free, or pure rate of interest
    - ***2.*** A.K.A. Rate of Profit
  - ***D.*** New money, when loaned to businesses, creates a false signal that people are saving more
  - ***E.*** Lowers apparent rate of interest
  - ***F.*** Entrepreneurs put resources into less profitable or longer processes of production
  - ***G.*** Producers' goods are bid away from the market
  - ***H.*** People continue to save and spend as before
  - ***I.*** Demand for long-term products collapses and capital goods are used up faster than people thought they would be
  - ***J.*** Capital goods moving down the process of production become less substitutable and take more time/money/energy to recycle, if they can be recycled
  - ***K.*** Some projects cannot be completed on time; profitable-looking projects now appear lossy
  - ***L.*** Capital investment is liquidated ("malinvestment")

V. Is it under-consumption?
  - ***A.*** No. Capital goods suffer more and sooner in the bust

VI. The "boom" is wasteful malinvestment. The "bust" is when consumers re-establish the desired proportions between saving and consumption

VII. Can we extend the boom with more bank credit?
  - ***A.*** We can, but it causes more capital goods to be incorrectly invested and wasted
  - ***B.*** The longer we push the boom along, the worse the eventual reckoning of the bust