

The global credit market crisis and ‘the mystery of banking’

Executive MBA

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“[W]hen historical relationships are taken into account, it is difficult to ascribe th. house price bubble eith.r to monetary policy or to th. broad.r macroeconomic environment.”



Debt pyramid

US nominal GDP and total debt, US\$bn

Source : Thomson Financial. - Nominal GDP annualized quarterly d- Nonfinancial



What inflation really is (III)

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Figure 3: Long-run M1 demand, estimation results

			i_t^{long} : rank ()		y_t	Trace statistics	Max-eigen stat. y_t	pe_t
I.	Q2 '73 – Q4 '04	(i)						
		(ii)	=0	60.151*	29.766*	1.972		







Time preference (I)

- § *Time* is omnipresent in human action as a means that must be *economized*.
- § A fundamental and constant truth about human action is that *man prefers his end to be achieved in the shortest possible time*. Given the specific satisfaction, the sooner it arrives, the better. This results from the fact that time is always scarce, and a means to be economized. With any *given end* to be attained, the shorter the period of action, i.e., production, the more preferable for the actor. *This is the universal fact of time preference*.
- § At any point of time, and for any action, the actor most prefers to have his end attained in the immediate present. Next best for him is the immediate future, and the further in the future the attainment of the end appears to be, the less preferable it is. *The less waiting time, the more preferable it is for him*.



Time preference (III)

- Š The lower (higher) time preference, the stronger (weaker) the economic forces work-ing towards civilization.
- Š The increase in the accumulation of capital via sav49. and investment raises

Time preference (IV)

(ii) *Biological factors*. – Children (adults) have a higher (lower) time preference; in fact, time preference may change over the life cycle.

(iii) *Social and institutional factors* . – Respecting (violating) property rights will encourage, stimulate and even accelerate (disturb, halt or even reverse) the tendency toward a fall in time preference, leading to civilisation (decivilization).

§ The chart below plots the time preference rate (vertical axis) against the level of real money income (horizontal axis). T_1 and T_2 represent time preference schedules. Reflecting the law of diminishing marginal utility, T_1 and T_2 slope downward: the higher (lower) the level of real income is, the lower (higher) is the marginal utility of present real money, and the lower (higher) is the time preference rate.

