IRVING FISHER

- Fisher was born in Saugerties (New York).
- Irving Fisher was a mathematician, statistician, reformer and a teacher.
- He was a great mathematician and used extensively mathematics in economics.
- His doctoral dissertation was “Mathematical Investigation in the Theory of Value and Price”, published in 1892
- He was educated at Yale, Berlin and Paris.
- In 1893 he left for Europe for his higher studies in Mathematics.
- After his return, he taught mathematics for some-time at the Yale University.
- From 1895 onwards he was appointed as Professor of Economics.

Fisher's writings include:

- The Nature of Capital and Income (1906) The Rate of Interest (1907), The Purchasing Power of Money (1911), Elementary Principles of Economics (1910), The Making of Index Numbers (1922), The Money Illusion (1928), The Theory of Interest (1930), Booms and Depressions (1932), Stable Money (1934) and 100 percent Money (1935).
- Fisher's main contributions are in the fields of money, interest and capital.
- He was the first economist who said that income should not be confused with capital.

Economic Ideas of Irving Fisher

1. Theory of Demand:

- In his theory of demand, Irving Fisher adopted a cardinal utility analysis.(**Cardinal utility** analysis is based on the **cardinal** measurement of **utility** which assumes that **utility** is measurable and additive.)
- Like Edgeworth, he also developed the concept of indifference curves.
- He drew price and income lines.(A budget **line** or **price line** represents the various combinations of two goods which can be purchased with a given money **income** and assumed prices of goods)
- He also mentioned about superior and inferior goods and the substitutability and complementarity between goods.

2. Capital

- In his book “The Nature of Capital and Income” Irving Fisher discussed about capital.
- He maintained that capital and income could not be treated as abstract and unrealistic concepts.
- They were derived from the realities of economic life.
- Capital was a fund while income from it was a flow.

- **3. Interest:**
- Fisher thought that the main problem in Economics was the determination of rate of interest.
- For his analysis of interest, Fisher considered three factors namely, impatience or preference for present goods, productivity and uncertainty and risk
- .Of these, impatience and productivity determined the rate of interest
- Fisher emphasised that interest would not arise, if an individual was indifferent towards the present.
- Interest arose on account of time preference.
- Thus Fisher integrated the time preference and productivity theories of interest.
- Therefore his theory of interest was a non-monetary theory. He did not distinguish between real and monetary rate of interest.

4. Quantity Theory of Money:

- It states that there is a direct relationship between quantity of money and the level of prices .
- Acc.to quantity theory of money, if the amount of money in the economy doubles,price level also doubles causing inflation
- He stated this theory in the form of an equation known as equation of exchange

  MV=PT
- Where M is the money supply, V for velocity of circulation(number of times money changes hands),P is the price level ,T is the total voloume of transactions of goods and services
- Later he modified his equation of exchange by including credit money
- Hence the equation has changed into MV+M'V' =PT Where M'&V' stands for credit money and its velocity of circulation

- This equation equates the demand for money (PT) to supply of money (MV)
- Fisher pointed out that the velocity of circulation of money is low in LDC's.
- In order to increase the velocity he suggested that people should not hoard their savings but invest them in productive channels

CRITICIZMS

- It overemphasizes the role of money in the determination of prices
- The theory is based on wrong assumptions
- The theory cannot explain why prices do not rise even when the quantity of money is increased during a period of depression
- It is inadequate as a theory of money since it does not take into account of the influence of the rate of interest