

The Rate of Interest

Its Nature, Determination and Relation to Economic
Phenomena

By IRVING FISHER

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Professor Fisher remarks in his Preface that while the value of the work accomplished by Rae, Böhm-Bawerk, Landry, and some other predecessors in this line of investigation has been great, it is chiefly negative. The principal result has been to make it plain that the rate of interest is a phenomenon omnipresent in economic relations. The author continues:

"The theory of interest here presented is largely based upon the theories of the three writers above mentioned, and may therefore be called, in deference to Böhm-Bawerk, an 'agio theory.' But it differs from former versions of that theory by the introduction explicitly of an income concept. This concept, which I have developed at length in 'The Nature of Capital and Income,' is found to play a central rôle in the theory of interest. The difficult problem is not whether the rate of interest is an *agio*, or premium, for of this there can be no question, but upon what does that *agio* depend and in what manner? Does it depend, for instance, on the volume of money, the amount of capital, the productivity of capital, the 'superior productivity of roundabout processes,' the labor of the capitalist, the helplessness of the laborer, or upon some other condition? The solution here offered is that the rate of interest depends on the character of the income-stream, — its size, composition, probability, and above all, its distribution in time. It might be called a theory of prospective provision of income."

The contents are summarized under four heads:

- I. CRITICISM OF PREVIOUS THEORIES
- II. FIRST APPROXIMATION
- III. SECOND AND THIRD APPROXIMATIONS
- IV. CONCLUSIONS. APPENDICES. INDEX.

"Dealing with fundamental concepts of wealth, capital and income, Professor Fisher has corrected and deepened our knowledge of the most familiar facts contributively to important conclusions of a general nature." — Prof. FRANKLIN H. GIDDINGS.

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