

# THE RATE OF INTEREST

ITS NATURE, DETERMINATION AND  
RELATION TO ECONOMIC  
PHENOMENA

BY

IRVING FISHER, PH.D.

PROFESSOR OF POLITICAL ECONOMY, YALE UNIVERSITY



THE MACMILLAN COMPANY  
NEW YORK · BOSTON · CHICAGO  
ATLANTA · SAN FRANCISCO

MACMILLAN & CO., LIMITED  
LONDON · BOMBAY · CALCUTTA  
MELBOURNE

THE MACMILLAN CO. OF CANADA, LTD.  
TORONTO

New York  
THE MACMILLAN COMPANY  
1907

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Set up and printed. Published October, 1907.

TO  
*The Memory*  
OF  
JOHN RAE  
WHO LAID THE FOUNDATIONS  
UPON WHICH  
I HAVE ENDEAVORED  
TO BUILD

**Norwood Press**  
J S Cushing Co. — Berwick & Smith Co.  
Norwood, Mass., U.S.A.

## PREFACE

THE problem of interest has engaged the attention of writers for two thousand years, and of economists since economics began. And yet, with the exception of what has been accomplished by Rae, Böhm-Bawerk, Landry, and some others, very little progress has been made toward a satisfactory solution. Even these writers can scarcely claim to have established a definitive theory of interest. While the value of their work is great, it is chiefly negative. They have cleared the way to a true theory by removing the confusions and fallacies which have beset the subject, and have pointed out that the rate of interest is not a phenomenon restricted to money markets, but is omnipresent in economic relations.

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?









































































































































































































































































































































































































































































