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THE AUSTRIAN BUSINESS CYCLE THEORY, RATIONAL EXPECTATIONS AND HISTORICAL TIME

Abstract:

This paper formulates the Austrian business cycle theory in historical time, considering institutional context of the central bank policy. Since central banks intervene permanently in credit markets, entrepreneurs may be fooled by their policies and an artificial boom may be initiated. Hence, the Austrian business cycle theory is able to explain the course of business cycle of current economies even if the rational expectations hypothesis holds.

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Keywords:

Business cycle, Austrian business cycle theory, rational expectations, historical time

JEL Classification: D84, E32, E52