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ZERO TIME PREFERENCE AND ETERNAL POSTPONEMENT OF CONSUMPTION

Abstract:

Ludwig von Mises in his magnum opus Human Action claimed that the absence of time preference would lead the consumer to postpone the act of consumption to indefinite future. Olson and Bailey (1981) demonstrated that zero time preference is consistent with positive real interest rate and positive present consumption if the marginal utility of consumption is rapidly decreasing and the income endowment is rising over time.

□This paper shows that zero time preference does not restrict present consumption to nil even if positive interest rate enables future consumption to be very large. Dynamic neoclassical model is applied to confirm that low intertemporal elasticity of substitution leads to positive present consumption even in the case of patient consumers. Determinants of the optimum present consumption are derived, and it is proved that labour income might not be increasing over time to confirm the approach of Olson and Bailey and to disprove the Mises theory.

Keywords:

time preference, Ludwig von Mises, postponement of consumption, intertemporal elasticity of substitution

JEL Classification: E21, B53, D90