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## A Behavioral Theory of Interest Rate Formation (Classic Reprint)

By James H Hines Jr

Forgotten Books, United States, 2015. Paperback. Book Condition: New. 229 x 152 mm. Language: English . Brand New Book \*\*\*\*\* Print on Demand \*\*\*\*\*.Excerpt from A Behavioral Theory of Interest Rate Formation This paper develops and marshals empirical support for a theory of the nominal, short-term, risk-free interest rate. Unlike most approaches to the problem, the formulation presented here does not assume equality of supply and demand for securities. Rather, the formulation is a mechanism which would help to bring supply and demand into balance in a larger macroeconomic model. Empirical support is offered at two levels of aggregation: Empirical studies of individual human decision making are used to suggest an appropriate structure; the structure is then estimated using macro-economic data. In the proposed formulation the risk free interest rate moves in response to liquidity pressures experienced principally by intermediaries. Liquidity pressures cause movements in the interest rate relative to the underlying interest rate, a construct which represents the interest rate environment to which people have become accustomed. The formulation has grown from work on the M. I. T. System Dynamics National Model (for a description of the modeling project see Forrester 1984 and 1979). The National Model is a...



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