

*Asset Prices and Monetary Policy – An Austrian Perspective*

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Abstract

How asset prices should be taken into account in monetary policy is a controversial question in mainstream discussion. These mainstream positions can be differentiated into two broad perspectives: the proactive and the reactive views. The proactive view advocates pricking the asset price bubble, while the reactive view argues against monetary policy targeting asset prices. In this article the relation between asset prices and the Austrian business cycle theory is examined. From this relation implications for monetary policy are deduced. Following this, a critique of both the proactive and reactive views is provided.