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Sunt evidențiați următorii termeni de căutare: **zimbabwe stock exchange benefits austrian economic theory**

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## Zimbabwe Stock Exchange “Benefits” from Austrian Economic Theory

By [John Paul Koning](#) • April 12th, 2007 • [Related Articles](#) • [Filed Under](#)

**Zimbabwe** is in the middle of an **economic** disintegration, with GDP half of what it was in 2000, and declining for the seventh consecutive year. Ever since

President Mugabe's disastrous land-reform campaign (an entire article in itself), the country's farming, tourism, and gold sectors have collapsed. Unemployment is said to be near 80%.

Yet the **Zimbabwe Stock Exchange** (the ZSE) is the best performing **stock exchange** in the world, with the key **Zimbabwe Industrials Index** up some 595% since the beginning of the year and 12,000% over twelve months. This jump in share prices is far in excess of increases in consumer prices. While the country is crumbling, the Zimbabwean share speculator is keeping up much better than the typical Zimbabwean on the street.

Mainstream logic fails to explain the coincidence of a rising ZSE and collapsing GDP because it entirely ignores the monetary side of the economy. At this point **Austrian** economics makes its contribution to our story. According to [Austrian Business Cycle Theory](#) (ABCT), the peak-trough-peak pattern that economies demonstrate is not their natural state, but one created by excess growth in money supply and credit. New money is not simply parachuted to everyone equally and at the same time - it is sluiced into the economy at certain initial "entry points." From these entry points, a number of initial goods are bought by recipients of new money causing a rise in price for these initial goods relative to other goods.

Because entrepreneurs react to this observed but unjustified change in the structure of prices by investing their capital, misallocation occurs. As money-supply growth continues and prices become more contorted, more and more ventures are undertaken that would not be undertaken in a regime without money-supply growth. When, for whatever the reason, money supply finally contracts, the artificial strength in prices that encouraged unprofitable ventures is removed, prices collapse, and large numbers of ventures go bankrupt. Thus we have the recession part of the business cycle, the simultaneous failure of many firms at the same time.

If, as the **Austrian theory** states, money enters the economy at certain points, it is likely that a nation's **stock** market will become a prime beneficiary of any monetary expansion. Fresh money enters the economy first through banks and other financial entities who may invest it in shares, or lend it to others who buy shares. Thus **stock** prices rise relative to prices of things like food and clothes and will outperform as long as this monetary process is allowed to continue.

This is what we are seeing in **Zimbabwe**. With the country suffering from [Robert Mugabe's](#) catastrophic policies, increasingly the only means for the government to fund itself has been money-supply growth. This has only exacerbated the economy's problems. The flood of new money that authorities have created has caused the existing value of money in circulation to plummet, i.e., the prices of all sorts of goods to explode, some rising more than others.

As prices become more misaligned, basic decision-making abilities of normal Zimbabweans are impaired and the day-to-day functioning of the economy deteriorates. Perversely, all of this has forced the government to issue even more currency to make up for budget shortfalls and to buy support. At last measure, the country's consumer price index was rising (i.e., the purchasing power of currency declining), at a rate of 1,729% a year.

The ZSE is growing some three times faster than consumer prices. This relative outperformance versus general prices is a result of stocks being a chief entry point for the flood of newly created money. Keep Zimbabwean dollars in your pocket, and they've already lost a chunk of their value by the next day. Putting money in the bank, where rates are pithy, is not much better. Investing in government bonds is the equivalent of financial suicide. Converting wealth into foreign currency is difficult; hard currency is scarce, and strict rules limit exchangeability.

As for capital improvements, there is little incentive on the part of companies to invest in their already-losing enterprises since **economic** prospects look so

bleak. Very few havens exist for people to hide their wealth from the evils created by Mugabe's policies. Like compressed air looking for an exit, money is pouring into shares of ZSE-listed firms like banker Old Mutual, hotel group Meikles Africa, and mobile phone firm Econet Wireless. It is the only place to go. Thus the 12,000% year over year increase in the **Zimbabwe** Industrials.

Our **Zimbabwe** example, though extreme, demonstrates how changes in **stock** prices can be driven by monetary conditions, and not changes in GDP. New money gets spent or invested. In Zimbabwe's case, because there are no alternatives, it is stocks that are benefiting.

This sort of thinking can be applied to the **stock** markets in the Western world too. Though western central banks have not been printing nearly as fast as their **Zimbabwe** counterpart, they do have a long history of increasing the money supply. It forces one to ask how much of the growth in Western **stock** markets over the preceding twenty-five years has been created by a vastly increasing money supply, and how much is due to actual wealth creation. Perhaps **stock** prices have increased faster than goods prices for the last twenty-five years because, as in **Zimbabwe**, Western **stock** markets have become one of the principal entry points for newly printed currency.

Regards,

John Paul Koning  
for The Daily Reckoning Australia

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In New Zealand we have had a similar, although less dramatic experience. With vast increases in the money supply over the last few years our housing market and share market have boomed, yet many people believe it has been wealth being created when it is merely the result of inflation of the money supply!

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