

Karl Menger is recognised as the founder of Austrian school of economics. The classical and the socialists formulated an objective theory of value. Menger recognised the importance of deductive method as followed by classical economists. Below we present his ideas on goods and value—

① Theory of value or Imputation :- In his theory of value, Menger held that the value of commodities was a phenomenon that resulted from the relationship between demand for and the available supply of commodities. He explained the concept of value with an example. He assumed that an inhabitant of a virgin forest had several trees at his disposal. But, he required 20 trees a year for the satisfaction of his needs of timber. In a fire, if thousands of his trees were destroyed, he would incur no loss, provided some 20 remained to satisfy his needs. Now, in case there were 10 fruit trees

in the same forest which were the minimum required to satisfy his hunger and if any one of them was destroyed by fire he would suffer loss because they were just sufficient to satisfy his hunger.

with the utilisation of statistics, Menger came into conclusion that the available quantity of goods or supply determined value i.e, an increase or decrease in the supply changed the value of commodity. Menger claimed that when the supply of a commodity was increased its additional unit had less satisfying power. For him, value meant significance or utility which was imputed on the basis of psychological judgement of the consumers.

⑪ Menger's concept of goods :- According to Menger there is a correlation between a commodity and satisfaction based on the law of cause and effect. He recognised the quality of a commodity as the utility which makes it proper for satisfying human wants. Menger talks of several types of goods - real or unreal, material or immaterial, transitory or durable, goods of the first order, second order and third

In order to lay emphasis on goods
he ranked them in the following manner
First order — bread, Second order — flour,
third order — wheat and fourth order — field
instruments essential for farming and the
services of farmers. He recognised the signi-
ficance of consumer goods on which the
demand for other goods was based. For instan-
ce the demand for bread created the
demand for flour, wheat, land, machinery
and so on. It is therefore clear how produ-
cer goods retain their value from con-
sumer goods. Besides this, he also recognised
an element of uncertainty and insecurity
attached with the goods of higher order.