

Empirical analysis remains the predominant study method of business cycles. In contrast to this, our thesis presents the theoretical comparison of two economic approaches. The first is the Austrian business cycle theory, building on the theory of capital, Cantillon effect and fractional reserve banking. The second approach is the Greenwald-Stiglitz model of business cycles, building on the imperfect information on equity markets and risk averse behavior of managers. At first, we describe in detail both these theories and then we critically examine them. After analyzing the Greenwald-Stiglitz model, we come to reject it, but we reject it only as the main basis for our understanding of economic cycles. Its main weakness is the large number of restrictive assumptions, some of which are only slightly justified. At the same time, we do not reject all the conclusions to which it comes. In the next section, we also critically examine the Austrian school, particularly its view on employment in the years of economic boom. We also pay attention to the Austrian contribution to the debate on economic calculation. In conclusion, we mention the possibility of supplementing Austrian business cycle theory with Greenwald-Stiglitz model. The reason is, that the Austrian school is unable to explain why the economical downturns have the persistence that they have. Because this persistence is in Greenwald-Stiglitz model explained on a more exact level, we use this as a main source of explanation of persistence.