Index

accounting 161, 179–80
adjustable rate mortgages (ARMs) 20
advanced capitalist economies
instability of 169
advanced industrialized economies 209
agents’ financial structure and credit market 111–14
agents’ heterogeneity 182–204
aggregate income and aggregate expenditure 96, 207
aggregation procedure, stochastic 191
American economic expansion, 1990s 272
American Society of Civil Engineers 79
analytical tractability 191
animal behavior 253
anxiety avoidance 257
artificial intelligence 252
Asia, emerging market economy 3
Asian crisis 1997–98, 177, 222, 232
financial instability 223
Asian financial crisis, 1997–98 94
Asian meltdown, 1997–99 16
assassination of Archduke Ferdinand, Sarajevo
cause of World War I 270
asset-backed commercial paper (ABCP) 21
asset-backed securities (ABS) 21
asset bubbles and collapses
effect on economic outcomes 230
asset bubbles and spatiality 229–35
Minsky’s model 1, 224–5, 228–9
spatialized approach 222–44
asset management advice 23
asset price 88, 119
bubble 123
deflation 223, 246
excess 149
increases 3, 189
inflation 88
rises 225
rural-to-urban migration 231
stabilization 132
asset-pricing theory, classical 249
assets and liabilities
bank share 19
control of
regulation and supervision 65
assets in mortgages 38
assets, nominal and real 230
asset valuation 35, 118, 246, 258
assumptions of linearity 178
asymmetric information 101, 102
‘asymmetric reward structure’ 104
average equity ratio 201
average investment ratio 194
balance sheets 124, 225
bank credit extension 189
bank deposits as liabilities 10, 11
bank funding 18
banking and financial system 85
banking, a ‘Tobin–Schumpeter’ view 105–7
banking in Minsky’s theory 100–15
banking innovation and money market rate 109
banking reforms of 1980s and 1990s 92
bank loans 85, 103
and expected profits 113
bank risk and borrower’s risk 113
bankruptcy and dynamics 158–9
bankruptcy cost 187
bankruptcy for firm 185
banks
economizing of 19
liquidity preference 111–12
nonperforming loans 177
as systemic risk 131–2
banks, private 160
Baring Crisis 172
barter exchange of commodities 161
barter system 48–9, 86
Basel agreement 25

277
<table>
<thead>
<tr>
<th>Term</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basel minimum capital standards, 2004</td>
<td>129–30</td>
</tr>
<tr>
<td>extensive application and results</td>
<td>131</td>
</tr>
<tr>
<td>Bear Stearns, failure</td>
<td>45, 123, 127, 134</td>
</tr>
<tr>
<td>behavioral finance</td>
<td>3, 247–50</td>
</tr>
<tr>
<td>psychological input summary</td>
<td>249–50</td>
</tr>
<tr>
<td>behavioral finance, ‘old’</td>
<td>249–53</td>
</tr>
<tr>
<td>behavior as outcome of reason</td>
<td>257</td>
</tr>
<tr>
<td>belief as basis for action</td>
<td>255</td>
</tr>
<tr>
<td>Bernanke, Ben, Federal Chairman, USA</td>
<td>134, 149</td>
</tr>
<tr>
<td>Bernanke Federal Reserve</td>
<td></td>
</tr>
<tr>
<td>deleveraging phenomenon</td>
<td>128</td>
</tr>
<tr>
<td>bifurcation analysis</td>
<td>178</td>
</tr>
<tr>
<td>‘Big Bank’</td>
<td>1, 2, 6, 12, 16, 23, 271</td>
</tr>
<tr>
<td>response to Minsky crisis</td>
<td>226</td>
</tr>
<tr>
<td>‘Big Government’</td>
<td>1, 2, 6, 12, 16, 23, 271</td>
</tr>
<tr>
<td>countercyclical spending</td>
<td>226</td>
</tr>
<tr>
<td>inflation</td>
<td>60</td>
</tr>
<tr>
<td>‘Big Government/Big Bank’</td>
<td>27</td>
</tr>
<tr>
<td>capitalism</td>
<td>47–8, 78</td>
</tr>
<tr>
<td>decisions, US</td>
<td></td>
</tr>
<tr>
<td>fiscal policy</td>
<td>223</td>
</tr>
<tr>
<td>Keynesianism</td>
<td>66</td>
</tr>
<tr>
<td>Minsky on economics of control</td>
<td>63</td>
</tr>
<tr>
<td>response to Minsky crisis</td>
<td>226</td>
</tr>
<tr>
<td>Black–Scholes option pricing model</td>
<td>122</td>
</tr>
<tr>
<td>boldness and speculative finance</td>
<td>175</td>
</tr>
<tr>
<td>bond guarantors</td>
<td>129</td>
</tr>
<tr>
<td>bond holdings</td>
<td>14</td>
</tr>
<tr>
<td>bond market crash, 1994</td>
<td>16, 160</td>
</tr>
<tr>
<td>boom-and-bust cycles</td>
<td>119, 223</td>
</tr>
<tr>
<td>boom economies to bubble economies</td>
<td>189, 232, 234</td>
</tr>
<tr>
<td>financial fragility</td>
<td>235</td>
</tr>
<tr>
<td>border constraints</td>
<td></td>
</tr>
<tr>
<td>asset-prices reversals</td>
<td>236</td>
</tr>
<tr>
<td>bordered economies</td>
<td>230</td>
</tr>
<tr>
<td>Minsky crises and Minsky cycles</td>
<td>237</td>
</tr>
<tr>
<td>borrower–lender relationships, strength</td>
<td>233</td>
</tr>
<tr>
<td>borrower’s bankers’ skepticism of</td>
<td>101</td>
</tr>
<tr>
<td>and lender’s risk</td>
<td>112–14</td>
</tr>
<tr>
<td>marginal</td>
<td>122</td>
</tr>
<tr>
<td>risk</td>
<td>113, 185, 203</td>
</tr>
<tr>
<td>borrowing by Britain, in World War II</td>
<td>271</td>
</tr>
<tr>
<td>brain activity</td>
<td>252</td>
</tr>
<tr>
<td>Brave New World (BNW)</td>
<td>146</td>
</tr>
<tr>
<td>Brazilian crisis</td>
<td>1998</td>
</tr>
<tr>
<td>British hegemony, 1870–1913</td>
<td></td>
</tr>
<tr>
<td>military might</td>
<td>269</td>
</tr>
<tr>
<td>budget constraints</td>
<td>158</td>
</tr>
<tr>
<td>bull market cycle</td>
<td>121, 122</td>
</tr>
<tr>
<td>Bush, George H.W., Administration</td>
<td></td>
</tr>
<tr>
<td>deleveraging phenomenon</td>
<td>128</td>
</tr>
<tr>
<td>industry consolidation, Treasury losses</td>
<td>127</td>
</tr>
<tr>
<td>business cycle</td>
<td>100</td>
</tr>
<tr>
<td>dynamics, post-peak</td>
<td>228</td>
</tr>
<tr>
<td>US, 1990–2007</td>
<td>54</td>
</tr>
<tr>
<td>business downsizing</td>
<td>26</td>
</tr>
<tr>
<td>California boom (capital-absorbing) economy</td>
<td>234–5</td>
</tr>
<tr>
<td>California, importing of capital</td>
<td>235–6</td>
</tr>
<tr>
<td>California real-estate bubble, mid-1980s to 1991–92</td>
<td>229</td>
</tr>
<tr>
<td>capacity utilization</td>
<td>198</td>
</tr>
<tr>
<td>capital asset prices</td>
<td>184</td>
</tr>
<tr>
<td>future profit flows</td>
<td>183</td>
</tr>
<tr>
<td>capital assets</td>
<td>85</td>
</tr>
<tr>
<td>yield expectation</td>
<td>255</td>
</tr>
<tr>
<td>capital controls, inward</td>
<td>233</td>
</tr>
<tr>
<td>capital flight</td>
<td>232</td>
</tr>
<tr>
<td>capital goods</td>
<td>171</td>
</tr>
<tr>
<td>capital-inflow</td>
<td>232, 234</td>
</tr>
<tr>
<td>capitalism</td>
<td>48–52, 96</td>
</tr>
<tr>
<td>best economic system</td>
<td>150</td>
</tr>
<tr>
<td>big-government and laissez faire</td>
<td>47</td>
</tr>
<tr>
<td>booms, crises, depressions</td>
<td>118–19</td>
</tr>
<tr>
<td>instability of</td>
<td>126</td>
</tr>
<tr>
<td>monetary-production economy</td>
<td>48</td>
</tr>
<tr>
<td>neo-liberal</td>
<td>119</td>
</tr>
<tr>
<td>‘new’ 84–98</td>
<td></td>
</tr>
<tr>
<td>under Roosevelt</td>
<td>70</td>
</tr>
<tr>
<td>capitalist booms</td>
<td>175</td>
</tr>
<tr>
<td>capitalist economies</td>
<td>4, 51–2, 86</td>
</tr>
<tr>
<td>capitalist expansion, 1990s and 2000s private consumption</td>
<td>97</td>
</tr>
<tr>
<td>capitalist system, creativity in</td>
<td>63</td>
</tr>
<tr>
<td>capital market institutions</td>
<td>36, 40</td>
</tr>
<tr>
<td>capital mobility</td>
<td>230</td>
</tr>
<tr>
<td>capital–output ratio</td>
<td>211–12</td>
</tr>
<tr>
<td>capital requirements of banks</td>
<td>25</td>
</tr>
<tr>
<td>cash flow and debt commitments</td>
<td>184</td>
</tr>
<tr>
<td>cash flow problems</td>
<td></td>
</tr>
<tr>
<td>spiraling debt</td>
<td>118</td>
</tr>
</tbody>
</table>
Index 279

cash flows 158, 189
income for private sector 51
caution, extreme, hedge finance 175
central bank meddling 136
certainty/ignorance 253
China, emerging market economy 3
circular flow and innovation 6, 7, 165
Citibank's credit risks 132
clearing houses 130, 160–61
Clinton Administration 128, 134
sound fiscal policy 96
closed-economy approach 228
cognition and emotion 247
Cold war, end 272
collateralized debt obligations (CDOs) 21
collective bargaining 47, 67
collective security 267
commercial bankers and investment bankers 105
commercial banking 6, 9, 16–20, 23, 104
commercial bank IOUs 10–11
entrepreneurial behavior 107
risk of insolvency 113
commercial code 161
commercial paper markets 17, 121
commodity exchange 48
competition 50
amongst banks 103
by new global players 93
consumer credit houses 40
consumer debt 21
consumer demand 28
consumer goods 91
Consumer Price Index (CPI) changes, 1914–2007 62
Consumer Price Index (CPI), energy prices 137
consumer propensity 255
consumers' debt rate value 209–10
consumption function 211
consumption goods production 90
contract law 161
core CPI Taylor rule 138
core inflation 137
corporate and foreign bonds 15
corporate law 161
corporation finance 37
Council of Economic Advisers (CEA) 74
crash period 226
credit analysis, adequacy of 132
credit, cheapness of 132
credit creation 7
Credit Crunch of 1966, significance 6, 12–17
credit
easy to access 122
enhancement 44
evaluation 92, 161
credit default swaps (CDS) 21
credit market crisis 134
credit practices of banks 132
credit-rating agencies 121
credit rationing under asymmetric information 101
creditworthiness, guaranteed fundamental banking activity 24
cross-border imbalances in capital movements 237
financial fragility 223
cross-border imbalances, intra-national financial instability 238–9
cross-border relationships, significance 229, 236
cross-border wealth flows 232
abstract wealth claims 230
asset price pressures 233
currency crisis 222
current account deficit 96
current-account/reserve relationships 229
current output prices 184
cyclical behavior
debt-deflation 227
falling prices 227
debt 5, 37, 225
interest on 88
relative to income levels 222
debt financed speculation 103, 117
debt management
Federal Reserve System responsibility 45
debt owners' protection 34
debt ratio 209, 211
debt service charges 118, 189
debt structure, acceptable increase in 189
debt-to-net-worth ratio rise 110
Index

debt versus equity 34–7
decision making
  emotional state for 252
  and gut feelings 252
default risk 176
deleveraging paradox 124–5
demand and supply model 210–13
demand deposits 15
demand liabilities 36
deposit multiplier 9–10
deregulation of new practices 18
derivatives 117
design flaws in credit markets 222
determine future 174
determinist view of passage of time 170, 171
devolution of dollar 238
dialectical view of future 171, 178, 180
  relevance of Minsky 172
dialectical vision, central feature 174
discount rate 108
disequilibrium 153, 166
dollars, world’s reserve currency
  237–8
dotcom crisis 95
dotcom virtual firms, high rate of growth 94
dualism
  characteristic of closed systems 253
  durable assets
  falling prices and excess supply 123
  dynamic processes, Minsky 208–9
  dynamics 200–202
default risk 176
decision making
  emotional state for 252
  and gut feelings 252
department decisions 176
deleveraging paradox 124–5
demand and supply model 210–13
demand deposits 15
demand liabilities 36
deposit multiplier 9–10
deregulation of new practices 18
derivatives 117
design flaws in credit markets 222
determinist view of passage of time 170, 171
devolution of dollar 238
dialectical view of future 171, 178, 180
  relevance of Minsky 172
dialectical vision, central feature 174
discount rate 108
disequilibrium 153, 166
dollars, world’s reserve currency
  237–8
dotcom crisis 95
dotcom virtual firms, high rate of growth 94
dualism
  characteristic of closed systems 253
  durable assets
  falling prices and excess supply 123
  dynamic processes, Minsky 208–9
  dynamics 200–202
debt versus equity 34–7
demand deposits 15
demand liabilities 36
deposit multiplier 9–10
deregulation of new practices 18
derivatives 117
design flaws in credit markets 222
determinist view of passage of time 170, 171
devolution of dollar 238
dialectical view of future 171, 178, 180
  relevance of Minsky 172
dialectical vision, central feature 174
discount rate 108
disequilibrium 153, 166
dollars, world’s reserve currency
  237–8
dotcom crisis 95
dotcom virtual firms, high rate of growth 94
dualism
  characteristic of closed systems 253
  durable assets
  falling prices and excess supply 123
  dynamic processes, Minsky 208–9
  dynamics 200–202
economic analysis 208
economic and technological development
  cash-flow-generating activities 265
economic development, barriers 8
economic growth in China 93
economic ideology 150
  economic method, Minsky’s challenge 178–81
economic policy 88–90
  economic policy, ‘perfect’, Minsky on 90
  economic structures 161–3
  economics 173
  and psychology 247–8
economics, contemporary
  statistical social science 169
  economic systems 48
  economy as circular flow 6
  economy’s cyclical behavior 32
  economic finance 256–9
  emotion and decision-making 252
  emotions, biologically induced 257
  emotion theory, literature on reason and emotion 252
  emotion (wishful thinking) 257
  ‘employer of last resort’ (ELR)
  control of income growth 65
  firing for poor performance 66
  government 64
  employment
  and business interests 72
  full 70, 98
  and social needs 98
  employment level 63–4
  employment programs, temporary 73
  employment promotion 75
  endogenous dynamics 215–17
  entrepreneurial behavior of banks 106
  entrepreneurship and risk 63
  epistemology 259
  equilibrium and disequilibrium models
  mathematical models 167
  equilibrium condition
  aggregate demand equals supply 210
  equilibrium interest rate 187, 202
  equilibrium investment 185, 188
  bond market 197
  goods, money and bonds 197–200
  equilibrium ‘real’ 85
  equities 36–7
  boom in 175
  equity holders, leverage increase 35
  equity markets, in 1990s
  ‘new economy’ 18
  equity ratios, law of motion 200
  equity ratios of firms 191, 195
  equity-to-assets ratio 104
  Eurodollar deposits 13
  European Economic Community 271
  economy, ups and downs 209
  empire building 269–70
  European stagnation 94
  exchange-market equilibria 237
  exchange-rate uncertainty 223
exchanges 130
expectational dynamics 195
expected incremental profit rate 195
expenditure of state and local
governments 58, 60
experience and reason 254
experimental gaming 156
export surplus and export deficits 230
external finance premium 186

Fannie Mae 134
Federal Deposit Insurance
Corporation (FDIC) 28
federal funds market 11, 146
Federal funds rate 108
federal government expenditure 57, 59–61
Federal Home Loan Bank 36
Federal Open Market Committee
(FOMC) 141
Federal Reserve System 13, 14, 15, 32, 36, 40–41, 134
balance sheet 124–5
control 42–3
government bond dealers 40
lender of last resort 31, 43, 237
monetary policy role 16, 228
policy 135–6
regulatory control 45
support to non-member financial
institutions 45
Federal Savings and Loan Insurance
Corporation (FSLIC) 28
Fed–Treasury Accord (1951) 17
finance into income distribution 86, 186
finance of Germany during World War
II 270–71
Financial Accelerator Hypothesis 183, 186
Financial Accelerator research 3
financial accelerator theories 190
financial assets, inflation 97
financial conditions from banks 112
financial crisis 3, 12, 189, 222
capital inflows and growth of real
capital assets 243
contagion effects 243
government interference on credit
markets 243
lax financial regulation 243
moral hazard lending problems 243
‘financial distress’ condition 39
financial fragility 2, 175–9, 223–4, 235–6
and instability 172
pro-cyclical 101–5
financial innovation, analyses of
banking 114
financial innovations, booms and busts 8
financial instability 3, 12, 132, 182–204, 223, 225, 248
government interventions 50
government spending 55
growth and debt ratio 217
Minsky’s ideas, asset bubbles, role
of 222
natural to market economics 247
policy responses 236–9
relative importance of revenue
sources 266
financial instability hypothesis 84–98
Financial Instability Hypothesis (FIH),
Minsky 1, 3, 32, 52, 87–100, 119, 182–3, 186, 189, 222–6, 246
behavior of banks as important
ingredient 115
consumption function 217–18
and growth cycles 206–19
financial institution
consolidation 26
control mechanism 165
regulation of, by government 126
financial instruments and practices
complexity of understanding 26
financial intermediaries 33, 37–8, 106
monetary, banks 35
non-monetary 35
financial leverage 119
financial markets and banks 86
evolution of 175
psychology of 246–59
role of, Keynes’ theory 84
financial network of countries, World
War II
Britain, US and Soviet Union 271
financial stability
Federal Reserve System as guarantor
41–2
<table>
<thead>
<tr>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Stability Forum 126</td>
</tr>
<tr>
<td>financial structure, robust or fragile 119</td>
</tr>
<tr>
<td>financial system, Minsky on 35–7</td>
</tr>
<tr>
<td>financial system excesses 150</td>
</tr>
<tr>
<td>financial system, global collapse</td>
</tr>
<tr>
<td>Basel agreements’ contribution 25</td>
</tr>
<tr>
<td>financial system of US</td>
</tr>
<tr>
<td>as safe haven for liquidity and investment value 274</td>
</tr>
<tr>
<td>financial variables, cumulative changes 5</td>
</tr>
<tr>
<td>financing innovation possibilities 164–5</td>
</tr>
<tr>
<td>firm ownership from capital to labor 90</td>
</tr>
<tr>
<td>firms and power 264–5</td>
</tr>
<tr>
<td>fiscal deficits, temporary 73</td>
</tr>
<tr>
<td>fiscal policies</td>
</tr>
<tr>
<td>discrediting of 207</td>
</tr>
<tr>
<td>expansionary 89, 93, 132</td>
</tr>
<tr>
<td>Fisher, Irving, <em>Booms and Depression</em> 74</td>
</tr>
<tr>
<td>money supply control 72–3</td>
</tr>
<tr>
<td>Fitch and Moody’s 121</td>
</tr>
<tr>
<td>flexible exchange rates 1973</td>
</tr>
<tr>
<td>Vietnam War, 1960s 272</td>
</tr>
<tr>
<td>flow of capital</td>
</tr>
<tr>
<td>investment determination theory 203</td>
</tr>
<tr>
<td>forecasting rule simulations 215</td>
</tr>
<tr>
<td>foreign currency 10</td>
</tr>
<tr>
<td>Foreign Direct Investment (FDI) 230, 233</td>
</tr>
<tr>
<td>foreign exchange 232</td>
</tr>
<tr>
<td>foreign investment 175</td>
</tr>
<tr>
<td>form and function</td>
</tr>
<tr>
<td>entrepreneurs 160</td>
</tr>
<tr>
<td>government legislation 160</td>
</tr>
<tr>
<td>markets and firms 160</td>
</tr>
<tr>
<td>venture capitalists 160</td>
</tr>
<tr>
<td>Freddie Mac 134</td>
</tr>
<tr>
<td>free trade by military means 269</td>
</tr>
<tr>
<td>Freudian psychoanalysis</td>
</tr>
<tr>
<td>rational explanation for irrational behavior 256–7</td>
</tr>
<tr>
<td>Full Employment Bill, 1945 72</td>
</tr>
<tr>
<td>funds in competition with bank loans 18</td>
</tr>
<tr>
<td>game theory in economics 155, 158</td>
</tr>
<tr>
<td>General Equilibrium (GE)</td>
</tr>
<tr>
<td>exchange with clearing house 162</td>
</tr>
<tr>
<td>structure 165</td>
</tr>
<tr>
<td>theory 153–4, 158, 160</td>
</tr>
<tr>
<td>German lust for land <em>(lebensraum)</em> 270</td>
</tr>
<tr>
<td>Glass–Steagall Act 1933</td>
</tr>
<tr>
<td>abolition of 128</td>
</tr>
<tr>
<td>commercial banks 9</td>
</tr>
<tr>
<td>repeal, 1999 17, 24</td>
</tr>
<tr>
<td>global economy, 1970s 134</td>
</tr>
<tr>
<td>gold control 73</td>
</tr>
<tr>
<td>gold-exchange standard in 1971, US</td>
</tr>
<tr>
<td>forcing off Vietnam War, 1960s 272</td>
</tr>
<tr>
<td>gold standard 232</td>
</tr>
<tr>
<td>government bonds 10</td>
</tr>
<tr>
<td>purchase and sales 11, 14, 40</td>
</tr>
<tr>
<td>government debt 34, 110</td>
</tr>
<tr>
<td>government deficit 70</td>
</tr>
<tr>
<td>and asset prices</td>
</tr>
<tr>
<td>lender of last resort 51</td>
</tr>
<tr>
<td>government employment programs employed in Argentina 64</td>
</tr>
<tr>
<td>government expenditures</td>
</tr>
<tr>
<td>cash flow for private sector 51</td>
</tr>
<tr>
<td>government gross purchases 56</td>
</tr>
<tr>
<td>government intervention 51, 88–9, 98</td>
</tr>
<tr>
<td>instability of 49–50</td>
</tr>
<tr>
<td>government net purchases 56</td>
</tr>
<tr>
<td>government participation, fiscal and monetary measures 66</td>
</tr>
<tr>
<td>government role and policies 52</td>
</tr>
<tr>
<td>government securities 33</td>
</tr>
<tr>
<td>Treasury bills 108</td>
</tr>
<tr>
<td>US, decrease in importance 14</td>
</tr>
<tr>
<td>government, small to big 53–63</td>
</tr>
<tr>
<td>government spending in US 75, 96</td>
</tr>
<tr>
<td>quality and quantity 77</td>
</tr>
<tr>
<td>resistance to 77</td>
</tr>
<tr>
<td>Government Sponsored Enterprise (GSE) 21, 44</td>
</tr>
<tr>
<td>Gramm–Leach–Bliley (Financial Services Moderation) Act, 1999</td>
</tr>
<tr>
<td>129–30</td>
</tr>
<tr>
<td>Great Depression 27, 119–20</td>
</tr>
<tr>
<td>Great Moderation, 1982–2005 119, 134</td>
</tr>
<tr>
<td>Great Monetarist Experiment, 1979–82 16–20</td>
</tr>
<tr>
<td>Great Recession of 2007–09 16</td>
</tr>
<tr>
<td>Greenspan, Alan 134–5, 138, 149</td>
</tr>
<tr>
<td>commentary, 1998, 2001 147</td>
</tr>
<tr>
<td>monetary policy 148</td>
</tr>
</tbody>
</table>
Index

Greenspan/Bernanke era 150
Greenspan Federation
  low interest rate policy 20
Gross Domestic Product (GDP) 5, 55
gross money profits 89
growth cycles 209–10
  Financial Instability Hypothesis
    (FIH), Minsky 206–19
hedge finance 87, 175, 263, 272
  income cash flow, reliance on 266
hedge financing units 87, 189
hedge funds 27, 117, 129
  dominant players in US and world economy 97
hedge profile, country with 267
hedge units 120, 189
hegemon, preeminent power 264–5, 268
  threat of military action as influence 266–7
herd behavior, precipitating crisis 248, 251
heterogeneity 183, 188–91, 195
  mathematics of 218
Heterogeneous Agents (HE) case 201, 202
heuristics 249
  and framing 250
high expert specialist 157
high-growth economics
  relationships with asset bubbles 231
high power money (HPM) 5, 10, 11, 12
  Hitler, Adolf 270
home mortgage market 40
homeownership
  by low-income households 78–9
  New Deal reforms 27
  problems 123
home price falls and explosion 120, 123
homo economicus 206
  behavioral types 155–6
household as natural economic unit 33
  consumption goods, financial assets, money balances 124, 196–200
  government supervision of 65
  New Deal reforms 27
  housing market 120–21
housing stock, Korea 241
human psychology and behavior 263
human social interactions 169
Hume, David on reason 254
imbalance 243
incentive structures 131–2
income flows, division 229
income inequality 75
income policy, generalized 65
indebtedness, state of 209
  of banks 103
individual investment ratio 196
industrial policy 98
industry consolidation 26
inflation 17, 47, 64, 75, 212
  government spending 55
  monetary policy 14
Information and Knowledge Economy
  (IKE) 213
information inherited 171
infrastructure
  government supervision 65
innovation 50
  of banks 106–07
  evolution and complexity 165–6
  finance link 3, 8
  mutation and 159–60
  sponsorship of 159
types of 163–4
insolvency 126
instability source
  logic of financial markets 208
insurance companies 23, 129
insurance premium to taxpayers
  banks 131
interdependence
  between real and financial aspects 211
  real and monetary aspects 208
interest rates 87, 107–8, 110, 112
determination, Minsky 113
increase in money and credit markets 105
manipulation 126
raising and lowering 13–14, 108
reduction 68
velocity curve 109
internal finance 188, 203
Internal Revenue Service 51
international capital flows 233
international immigration 231–2
<table>
<thead>
<tr>
<th>Topic</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Monetary Fund (IMF)</td>
<td>222, 271</td>
</tr>
<tr>
<td>Korea, Minsky crisis</td>
<td>243</td>
</tr>
<tr>
<td>International relations</td>
<td>263–8</td>
</tr>
<tr>
<td>Hierarchical structure</td>
<td>264</td>
</tr>
<tr>
<td>Intra-national immigration</td>
<td>231–2</td>
</tr>
<tr>
<td>Investment 84</td>
<td></td>
</tr>
<tr>
<td>and business default</td>
<td>112</td>
</tr>
<tr>
<td>Goods 91</td>
<td></td>
</tr>
<tr>
<td>Initial profitability</td>
<td>119</td>
</tr>
<tr>
<td>Tax incentives 74, 75</td>
<td></td>
</tr>
<tr>
<td>Investment banking 9, 19, 23, 117</td>
<td></td>
</tr>
<tr>
<td>Goldman Sachs 26</td>
<td></td>
</tr>
<tr>
<td>Investment decisions</td>
<td></td>
</tr>
<tr>
<td>Fixed capital goods 87</td>
<td></td>
</tr>
<tr>
<td>Future valuation 171–2</td>
<td></td>
</tr>
<tr>
<td>Irrational under uncertainty</td>
<td>256</td>
</tr>
<tr>
<td>Socialization</td>
<td></td>
</tr>
<tr>
<td>Investment determination (Greenwald and Stiglitz)</td>
<td>184, 187–8, 192</td>
</tr>
<tr>
<td>Investment equation 184–5</td>
<td></td>
</tr>
<tr>
<td>Investment expenditure, increasing 33</td>
<td></td>
</tr>
<tr>
<td>Investment-financing processes 223</td>
<td></td>
</tr>
<tr>
<td>Investment level and composition 186</td>
<td></td>
</tr>
<tr>
<td>Investment projects, frivolous</td>
<td>65</td>
</tr>
<tr>
<td>Left to private sector</td>
<td></td>
</tr>
<tr>
<td>Investment strategies, diversity of 251</td>
<td>65</td>
</tr>
<tr>
<td>IOUs 9, 12</td>
<td></td>
</tr>
<tr>
<td>Iran and power 273–4</td>
<td></td>
</tr>
<tr>
<td>Iraq war, 2003</td>
<td>273</td>
</tr>
<tr>
<td>Support for US on 273–4</td>
<td></td>
</tr>
<tr>
<td>Irrational behavior and financial instability 248</td>
<td></td>
</tr>
<tr>
<td>Islamic Banking</td>
<td>25</td>
</tr>
<tr>
<td>Japan, 1960s to 1980s</td>
<td>231, 235</td>
</tr>
<tr>
<td>Capital flows to Tokyo</td>
<td></td>
</tr>
<tr>
<td>Intra-national asset flows 238</td>
<td></td>
</tr>
<tr>
<td>Economic recession, 1990s</td>
<td>94, 209</td>
</tr>
<tr>
<td>Land and stock price index values 240</td>
<td></td>
</tr>
<tr>
<td>Post-1984 asset bubble</td>
<td></td>
</tr>
<tr>
<td>Rural, wealth loss to buyer of overseas assets 232</td>
<td></td>
</tr>
<tr>
<td>Stock-market prices crash, 1989</td>
<td>239</td>
</tr>
<tr>
<td>Job shortages 47</td>
<td></td>
</tr>
<tr>
<td>Kalecki equation 53</td>
<td></td>
</tr>
<tr>
<td>Kennedy Administration</td>
<td></td>
</tr>
<tr>
<td>Federal spending and taxing 77</td>
<td></td>
</tr>
<tr>
<td>Kennedy–Johnson era</td>
<td></td>
</tr>
<tr>
<td>and Keynesianism 74–7</td>
<td></td>
</tr>
<tr>
<td>Keynesianism 47, 49</td>
<td></td>
</tr>
<tr>
<td>Fine-tuning and 78</td>
<td></td>
</tr>
<tr>
<td>Roosevelt era 67–74</td>
<td></td>
</tr>
<tr>
<td>Keynesian revolution, Minsky on 66</td>
<td></td>
</tr>
<tr>
<td>Keynesian uncertainty and real time 224</td>
<td></td>
</tr>
<tr>
<td>Keynes, John Maynard</td>
<td></td>
</tr>
<tr>
<td>Emotional finance and 246–5</td>
<td></td>
</tr>
<tr>
<td>General Theory of Employment, Interest and Money</td>
<td>66, 75, 104, 112, 224, 255</td>
</tr>
<tr>
<td>Government intervention 70</td>
<td></td>
</tr>
<tr>
<td>Interdependence of emotion and reason 255</td>
<td></td>
</tr>
<tr>
<td>‘My Early Beliefs’, essay 255</td>
<td></td>
</tr>
<tr>
<td>Paradox of thrift 124</td>
<td></td>
</tr>
<tr>
<td>Psychology and 246</td>
<td></td>
</tr>
<tr>
<td>Treatise on Probability 255</td>
<td></td>
</tr>
<tr>
<td>Knowledge</td>
<td></td>
</tr>
<tr>
<td>And instinct 255</td>
<td></td>
</tr>
<tr>
<td>As product of mind 254</td>
<td></td>
</tr>
<tr>
<td>Stocks 171</td>
<td></td>
</tr>
<tr>
<td>Korea 235</td>
<td></td>
</tr>
<tr>
<td>Land and stock price index, 1982–98</td>
<td>242</td>
</tr>
<tr>
<td>Land bubble of 1990s, affordable housing threat 241</td>
<td></td>
</tr>
<tr>
<td>National and intra-national cross-border financial imbalances</td>
<td>239–43</td>
</tr>
<tr>
<td>Seoul, intra-national asset flows 238</td>
<td></td>
</tr>
<tr>
<td>World-class industrial economy 241</td>
<td></td>
</tr>
<tr>
<td>Labor casualization 92</td>
<td></td>
</tr>
<tr>
<td>Labor-power selling 85</td>
<td></td>
</tr>
<tr>
<td>Labor shortage 77</td>
<td></td>
</tr>
<tr>
<td>Labor, subsumption of, to finance 97</td>
<td></td>
</tr>
<tr>
<td>Laissez-faire 90</td>
<td></td>
</tr>
<tr>
<td>Lehman Brothers</td>
<td></td>
</tr>
<tr>
<td>Austrian School solution, 2008 129</td>
<td></td>
</tr>
<tr>
<td>Lenders of last resort 39–41, 120, 132, 147</td>
<td></td>
</tr>
<tr>
<td>Central bank 89</td>
<td></td>
</tr>
<tr>
<td>Federal Reserve System 208</td>
<td></td>
</tr>
<tr>
<td>Intervention 223, 228</td>
<td></td>
</tr>
<tr>
<td>Lender’s risk 112, 185–6, 203</td>
<td></td>
</tr>
<tr>
<td>Lending capacity of banks 233</td>
<td></td>
</tr>
<tr>
<td>Lending, irresponsible 128</td>
<td></td>
</tr>
</tbody>
</table>

Dimitri B. Papadimitriou and L. Randall Wray - 9781849807098
Downloaded from Elgar Online at 08/13/2019 02:51:12PM via free access
Index 285

leveraged durable asset 123
leverage of banks, increased 113
leverage ratio 91
leverage use, curtailment 129
leveraging, income through 37
leveraging, Minsky on 127
liabilities 10
linear econometric studies 179
linearity of technology 198
liquid assets 224
liquidity 5, 225
  crisis prevention
  Federal Reserve System
  responsibility 42
liquidity of economy, reduced 110
liquidity preference 111–12, 114, 126
liquidity, psychological attitude to 255
liquidity requirement 226
liquidity squeeze 16
loan non-payment 222
loan of reserves 10
loan pools 19
loans and credit evaluation economy 163
loans, ‘nonperforming’ 177
long positions 12
Long-Term Capital Management (LTCM), 27, 50–51, 127, 130, 206
long-term interest rate, real risky 145
low-skilled workers, training 77
macroeconomic downturns 228
macroeconomic equilibrium 199–200
macroeconomic growth 223
macroeconomic programs
  government intervention 52
macroeconomics 188
macroeconomics, open
  Malaysia, Mexico, Korea 229
macroeconomic strategies 78
macroeconomic system 153, 186, 191
mainstream price theory 123
manufacturing relocation 93
marginal loan unit 122
market capitalism 208
market economies 86, 104, 208
market equilibrium 248
market forces 49–51
  and discipline 21
market funding 18
market imperfection 248
market innovations 19
market liquidity, drop in 118
market makers 38
market mechanisms, structural
  problems 77
  economic instability 47
  unemployment 47
  unfair distribution 47
market-oriented societies
  financial and investment sectors 172
market power 265
Markovian expectations
  multiple-equilibrium system 213–15
Marshall Plan 271
mathematical economic theory, Minsky on 153
mathematical models 173, 178, 180
medium-run 209–10
mental processes 250
microeconomics 183
micromanagement 79
military expenditure
  after Twin Towers attack 94
  Reagan Administration 93
military power and financial arrangements
  portfolio transactions 265–6
mind as locus of ideas 254
minimum hours 67
minimum wage 67
Minneapolis bridge collapse 79
Minsky, Hyman
  crises 222–44
  cycles 243
  emotional finance and 246–59
  John Maynard Keynes 1
  Keynes and 207–9, 256
  legacy 202–3
  modern history and 269–74
  1960 analysis 32–3, 206
  Stabilizing an Unstable Economy 1,
  103, 227
Minsky Moment
  predicting Federal policy 138
Minsky’s world of complex decision-making 102
Minsky/Wicksell Modified Taylor Rule (MWMTR) 2, 135, 143–4, 147, 150
easy money episode 148
Federal tightening, 2003–05 149
US monetary policy, 1979–2000 138
Modified-Representative Agent 191
Modigliani–Miller (MM) irrelevance proposition 186
Monetarist Experiment 6, 16–20, 50
monetary economy of production
Keynesianism 208
monetary policies 136, 207 asymmetric 135
Federal Reserve System 41–2
Minsky on 41–2 restrictive 93, 107, 109
tight, 1980s, US 272
monetary production economy 48–9
monetary sovereignty of federal government 55
monetary system 36 breakdown 73
money and credit creation 153 financial power 49
gold or fiat 165 non-neutrality of Keynes’s theory 84
purchasing power 49 quantity and velocity potential borrowers 108
riskless asset 36 view of, as a good 255
money into finance 86 money managers institutional investors 97
money market and innovative bankers 105 interest rate 107, 160
money policy and banking innovation 107–11
money supply curve 110 money supply growth targets open market operations 136
monitoring probability 203
moral hazard in financial sector 47, 50, 61, 139, 149 business risks 61
decrease in labor force participation 61
moral sense and self-command 254 mortgage assets 15
rise in as share of private assets 43
mortgage-backed securities (MBS) 21 mortgage crisis 31–46 mortgage finance 120 mortgage industry 51 mortgage institutions 129 mortgage loans 19 mortgage market, 2005–07 1, 122 secondary markets 17 mortgages
with flexible interest rates 95 securitizations of 44
multi-agent modeling and heterogeneity 190
multi-agent models 191
multiple-equilibrium system 213
Napoleonic Wars 269 national army in Europe 269 ‘nationalization’ temporary of failing institutions 26
National Resources Planning Board (NRPB) 70, 72
nation-state 263–5 nation states in Europe 269
New Consensus 48, 52
New Deal financial reforms 17, 24, 28, 67–70, 88, 90, 127 ‘Big Government/Big Bank’ 27 ‘new economy’ 91 United States 94 Non-Accelerating Inflation Rate of Unemployment (NAIRU) 136 non-bank intermediaries (merchant banks) Korea 241 nonlinear dynamical systems 3, 178 nonlinear econometrics 178 ‘non-specialist human’ (Keynes) ‘average’ consumer 156
Index 287

normal asset valuation reality-based cognition 257
North Atlantic Treaty Organization (NATO) 271
novelty as emotional spur 256
nuclear bomb, deterrent power 271
occupations, 'flexible' 93
oil boom 1970s, US 272
oil price leaps 137
open economies, financial stability in 223, 237–8
open market sales 11
optimal response player 156
optimism, spontaneous versus mathematical expectation 255
optimum asset structure for household 37
optimum liability structure for firm 37
Organisation for Economic Co-operation and Development (OECD) 241
output growth of US economy 209
outsourcing 93
overdraft insurance 10
overoptimism 172

parameters of the simulations 215
parametric information 224
parametric linearity 179
passage of time 174
patent law 161
pay-out ratios of firms 65
penalties 159
Penn Central bankruptcy 172
pension fund capitalism 92
pension funds 94, 121
dominant players in US and world economy 97
persuasion, process of 254
physical sciences 170
pleasure/pain principle 253
Ponzi
classification scheme 1
finance 63, 88, 119, 175, 206, 263, 266
financing unit 120, 122, 128–9, 189
schemes 268
Ponzi-squared phase 122–3
marginal borrowing unit 123
portfolio investment 233
portfolio transactions 266
post-Keynesian horizontalism 110, 111
post-war expansion 16
poverty redistribution 77
Primary Dealer Credit Facility (PDCF) 45
primary security dealers 41
'primary wave', Schumpeter on 8
private and public sector cooperation
socialization of investment 66
private assets 39
private consumption 97
private corporate bonds and fixed interest liabilities 43
private debts created by financial intermediation 37–41
private enterprise 63
private equity funds 27, 117
dominant players in US and world economy 97
private investment 68, 96
private liabilities 34
debt and equity 33
private portfolio management 37
private sector and full employment 75
growth of 14
process innovation 164
production and reproduction 172
productivity growth slow-down 90
productivity of firms 90
profit opportunity 87
for banks 105
profit-seeking business, banking 24, 110
property valuation 120
prosperity and crash, difference 225
protection for debt owners 34
psychology and economics 247
integrated approach 253–6
'psychology of the market', Keynes 256, 258
public liabilities 34–7
public sector 124
purchasing power increase 120
quantity of money increase 108–9
R&D 90
radical product innovation 163
random players 156
random shocks 49
rating agency profits 92
rational and irrational players 248
rational calculation, or affect 251
rational choice theory 248–9
rational expectations 102–3, 207
rationality
  on behavior of banks 103
  heuristics and decision-making 251
irrationality 253, 259
  of Minsky's banker 105
Real Business Cycle (RBC) 191
real estate
  assets 1
  boom 18, 175
  inflation 97
  markets, US 20, 31, 39, 95–6, 134
  prices 35
    increase rate 44
real exchange economy 48–9
reality-based thinking 257–8
real long rate, risky 144
real short rates, shifts over time 140
real time 224
reason/emotion 253
reasoning, inductive and deductive 252–3
recession 16
Reconstruction Finance Corporation 127
reductionism, value and limits of 166
regime switching 208–10
regional economic growth pattern 230–32
relationships with asset bubbles 231
regulated markets 130
Regulation Q ceilings 13–15
relationship banking 19, 27
relationships, cross-border 230
Representative Agent (RA) 183
  assumption 196, 201–2
macroeconomics 190
repurchase agreements 108
reserves 9–12
residential property prices, higher bids 121
resource redistribution 165
reverse Minsky journey 123–4
risk 21–2, 37, 102
  after benign conditions 119
  attitudes to 251
  expectation of 246
  risk-averse behavior of firms, banks,
    and financial intermediaries 38,
    87
  risk-free
    credit spreads, risky 143, 147
    interest rate 186
  risk of borrower and of lender 112
  risks, economic and financial 88
  risk seeking behavior 120
  risk-taking, excessive 128, 271
  risky behavior and crisis 263
  Roosevelt Administration 67
  federal government expenditure
    68–70
  fiscal and monetary strategies 74
  gold control 73
  unpreparedness of (Keynes) 68
Russian crisis, 1998 94
savings-and-loan crisis of 1980s 238
savings institutions 36
Schumpeterian finance and innovation 6–9
Schumpeter, Joseph Alois 153
  theory of economic development 6–9
science, motivation for scientific
  knowledge 253–4
Scottish Enlightenment 255
  modern psychology as stemming
    from 253
Scottish Enlightenment, key figures
  David Hume, Adam Smith 253
'secondary waves' 8
Securities and Exchange Commission (SEC)
  Keynes on 67
securities market
  private nonfinancial debt 19
  securitization 19–22
  Minsky on 22
  rise 16–20
selective credit policy 98
self-interest 254
  and collective interest 264
self-regulation as deregulation 128
sentiment and reason, interdependence 255
sentiment constraining action 254
services
finance for housing and consumers 23
payments system 23
secure outlets for savings 23
‘shadow banking sector’ 9, 120–22, 125, 128
collateralized debt obligations (CDOs) 120
deleverage 124
hedge funds 120
investment banks 120
‘shadow banks’ 23
short positions 12
short-term credits, failure to renew 232
short-term interest rates, rise 88
simulations 215
skilled labor and higher capital areas
product and income generation, higher 231
Smith, Adam
aesthetic sense 254
social need for investment 64–5
South Sea Bubble 172
sovereign’s balance sheet 125
spatial borders, relations 229
‘spatialization’ of Minsky’s model 224, 235–6
spatial segmentation 229
special purpose vehicles (SPVs) 21
speculation 1, 88, 128
on asset prices 223
on future valuation 171
speculative booms 17
speculative conflict 272
speculative finance 175, 189, 263, 266
‘speculative-financing’ units, Minsky 88
speculative positions
risks on military and financial front 268
speculative profile, country with 267
speculative units 120, 189
stability and instability, intrinsic 49
stability in economic system 119
stabilization policy 51
US big government 53–63
stagflation 17, 91
stagnationist tendency of 1980s 93–5
Standard & Poor’s (S&P) 121
standardized contracts 130
standard product innovation 164
state
as ‘employer of last resort’ 90
retirement system, dismantling of 92
securities 89
statistical inference 173–4
statistical method, modern 175
statistical social science 169
steady states 212–13
steady state value of two regimes, model 216
stock market crash, 1987 16
stock market crash, 2000 16, 160
structural equations, simulations 215
structuralism 78
structured instrument vehicles (SIVs) 21
student loans 28
subconscious motivation for behavior 255
subcontracting 93
sub-prime buyers 122–3
sub-prime crisis, 2007–08 43–5, 92, 100, 223, 229
sub-prime-financed housing boom, 2004–06 229, 232, 234
supremacy of Britain in 19th century 269
symmetry of information 101
systemic instability 263–75
systemic risk 132
system risk, regulatory reduction 128–30
tax incentives for employment stimulation 75, 77
tax law 161
Taylor equations 210, 217
Taylor Rule, 1990s 138–9
failure of 137
headline versus core inflation 136–8
technologies and weaponry in Europe 269
Term Securities Lending Facility (TSLF) 45
theory of investment determination, Minsky 184

time deposit business commercial banking system 15, 36
transfer payments 55, 61
Treasury, borrowing from Federal Reserve System 41
Treasury Inflation Protected Securities (TIPS) 140–41
forward yield 142
Treasury’s balance sheet 124
trust and distrust in institutions 258
Twin Towers attack 94

uncertainty environment of 102
Keynesian 114, 157–8, 208, 224–5
risk, coexistence 208
role of 218

unconscious mind, emergence of Scottish Enlightenment 254
underwriting standards, degradation 121–2
unemployment 47, 73, 209
and federal fiscal position 76
and purchasing power 66
unemployment rate 197
uneven growth 231
United Nations Security Council 271
universal banking 24
university endowments 121
United States banking regulation reform 129
big government era from World War II 227
California intra-national asset flows 238
dollar revaluation 93
economy, 1930s 149
government securities 15
Midwestern ‘rustbelt’, 1980s 232
military power 273
monetary policy, 1979–2000 134
money market, defect
conventional home mortgages 38–9

small government era, Civil War to Depression 227
utility function and emotion
loss aversion 250
velocity rise of money 108–9
venture-capital funds
dominant players in US and world economy 97
Vietnam War, 1960s
speculative position of US 272
violation of circular flow 165
Volcker, Paul, central banker 136

wage bargaining rules 65
wage deflation, US and Europe 93
wage-price inflation 134, 149
wage rate
salaries 86
source of income for household 197
stability 64
wages, assault against 92
wage stagnation 93
wage-workers 85
Wall Street Journal 1
Wall Street money managers
casino operators 28
War on Poverty (Johnson) 74, 77
wars 269
welfare and unemployment insurance 64
welfare provisions 92
welfare state dismantling 93
welfare system reform 98
Wicksellian long rate 141
Wicksellian natural rate 141
Wicksell Modified Taylor Rule 142, 146
workforce utilization 92–3
World Bank 222, 271
World War II economic history 270
expansion after 20
hedging behavior 271
US entry, and economy after 14, 70