### Index

<table>
<thead>
<tr>
<th>Term</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>accelerator</td>
<td>119, 232, 248</td>
</tr>
<tr>
<td>accountability</td>
<td>8</td>
</tr>
<tr>
<td>accounting, purpose of prudent management of company and</td>
<td>39</td>
</tr>
<tr>
<td>accounting identities</td>
<td>28–9</td>
</tr>
<tr>
<td>accounting relations in the economy</td>
<td>24</td>
</tr>
<tr>
<td>adjustable-rate mortgages (ARMs)</td>
<td>176</td>
</tr>
<tr>
<td>adverse selection</td>
<td>91</td>
</tr>
<tr>
<td>aftermath of decade of nil interest rates (Spain 1996–2008)</td>
<td>222–3</td>
</tr>
<tr>
<td>inflation: different performance of goods and assets markets</td>
<td>234–7</td>
</tr>
<tr>
<td>interest rates, credit and debt</td>
<td>229–34</td>
</tr>
<tr>
<td>output and burden of debt</td>
<td>237–41</td>
</tr>
<tr>
<td>agency, theory problems of portfolio managers</td>
<td>8, 91</td>
</tr>
<tr>
<td>agents</td>
<td>88–90</td>
</tr>
<tr>
<td>Aghion, P.</td>
<td>114–15, 123</td>
</tr>
<tr>
<td>AIG insurance company</td>
<td>36, 108</td>
</tr>
<tr>
<td>Akaike information criterion</td>
<td>148</td>
</tr>
<tr>
<td>Akerlof, G.A.</td>
<td>60, 64, 89, 92, 185–6, 200</td>
</tr>
<tr>
<td>Albacete Workshop</td>
<td>1, 7</td>
</tr>
<tr>
<td>Altuzarra, A.</td>
<td>232, 244</td>
</tr>
<tr>
<td>American Economic Association</td>
<td>118</td>
</tr>
<tr>
<td>Readings in Business Cycle Theory</td>
<td></td>
</tr>
<tr>
<td>Animal Spirits: How Human Psychology Drives the Economy and Why it Matters for Global Capitalism</td>
<td>60</td>
</tr>
<tr>
<td>anti-Keynesian analysis</td>
<td>112</td>
</tr>
<tr>
<td>Aristotle</td>
<td>218–19</td>
</tr>
<tr>
<td>Nicomachean Ethics</td>
<td>218</td>
</tr>
<tr>
<td>Arrow, K.</td>
<td>63–4, 68</td>
</tr>
<tr>
<td>artificial credit, leading to debt trap</td>
<td>223</td>
</tr>
<tr>
<td>asset prices</td>
<td>131, 139, 141, 141–3</td>
</tr>
<tr>
<td>asset-backed securities (ABS)</td>
<td>53, 103–104</td>
</tr>
<tr>
<td>asymmetrical information selection, for the expected loss estimation</td>
<td>70</td>
</tr>
<tr>
<td>Australia</td>
<td>162–3</td>
</tr>
<tr>
<td>Australian Bureau of Statistics</td>
<td>169</td>
</tr>
<tr>
<td>Austrian Business Cycle Theory</td>
<td>2, 33–4, 118, 146, 154, 158</td>
</tr>
<tr>
<td>Austrian School</td>
<td>2, 4, 22, 33, 40, 123–4, 146</td>
</tr>
<tr>
<td>autonomous demand</td>
<td>237, 238, 243</td>
</tr>
<tr>
<td>Baddeley, M.</td>
<td>232, 243</td>
</tr>
<tr>
<td>Bagehot, W.</td>
<td>215</td>
</tr>
<tr>
<td>Bagus, P.</td>
<td>146, 158</td>
</tr>
<tr>
<td>bailouts</td>
<td>106–107, 108, 131–2, 180</td>
</tr>
<tr>
<td>Baker, D.</td>
<td>15, 17, 23–4</td>
</tr>
<tr>
<td>balance of payments constraint</td>
<td>8, 241, 244</td>
</tr>
<tr>
<td>Balassa-Samuelson effect</td>
<td>235</td>
</tr>
<tr>
<td>Balodis, K. (Latvian economist)</td>
<td>214</td>
</tr>
<tr>
<td>Baltija Bank</td>
<td>208</td>
</tr>
<tr>
<td>Bank of Latvia</td>
<td>205</td>
</tr>
<tr>
<td>bank regulation, to avoid fragility of financial system</td>
<td>242</td>
</tr>
<tr>
<td>Banker Trust (1980s), profit-capital ratio in terms of risk</td>
<td>65</td>
</tr>
<tr>
<td>bankruptcy</td>
<td>35, 71</td>
</tr>
<tr>
<td>Basel Committee on Banking Supervision</td>
<td>178</td>
</tr>
<tr>
<td>Baumol, W.J.</td>
<td>117, 122</td>
</tr>
<tr>
<td>Bear Stearns</td>
<td>36, 179</td>
</tr>
<tr>
<td>behaviour</td>
<td></td>
</tr>
<tr>
<td>economic</td>
<td>60, 185, 186</td>
</tr>
<tr>
<td>understanding under uncertainty</td>
<td>49</td>
</tr>
<tr>
<td>unpredictable</td>
<td>183</td>
</tr>
<tr>
<td>behavioural assumption</td>
<td>26, 28</td>
</tr>
<tr>
<td>equations</td>
<td>26</td>
</tr>
<tr>
<td>finance</td>
<td>89</td>
</tr>
<tr>
<td>Belarus</td>
<td>206</td>
</tr>
</tbody>
</table>
Benthamite calculation 49, 57
Berlin Wall fall 1989 40, 173
Bernanke, Ben 35–6, 101, 105, 110, 155–6, 186, 188
Bernoulli trial 51
Bernstein, P.L. 63
Bersen (business paper) 19
Bezemer, D.J. 1
Bhagwati, J., ‘destructive creation’ 213–14, 220
Blanchard, Oliver (IMF) 56–8, 185
block exogeneity test 150, 152, 158
Bohm-Bawerkian capital theoretic omnipresent 117
Bonner, B. 20–21
boom-speculative phase of cycle, financial system more ‘fragile’ 134
booms 6, 9, 14, 25, 136, 176, 192
housing 176–7
Spanish 7, 37, 224–5, 238, 241–2
bounded rationality 28
Brent blend, European and African markets 149
Bretton Woods Agreement (1944) 108
Britain and USA (1930s) policies, causing the Great Depression 104–105
Brookings paper 176
bubbles 11, 20, 25, 185, 189
asset 4, 23, 109
bursting 134–5
credit 21–2
early detection 97
financial 33–5
housing 20, 23, 24–5, 176–7
real estate 109, 190, 192, 233, 241
speculative 2, 4, 7–8, 34, 38, 237, 241
stock 23–4, 109
bull market, psychological mechanisms 25
Bush administration, deficit 101, 110, 187–8
Caldwell, B. 41, 122, 126
Cambridge model 4, 115, 117, 121, 123, 128
Campos, J. 97, 98
Capital Asset Pricing Model (CAPM) 185
capital goods, substantial rise in prices 34
capital needs, under stress situations 83
capital requirements, economic cycle and 66
capitalist dynamics 118–21
casino scenarios 8
Cassel, G. 214
central banks 5, 35, 58–9, 112, 133
Central planning, discredited 173
cheap mortgages, low interest rates 188
Chicago School 43
China 6, 34, 74, 103–104, 106, 152, 161, 173
savings glut from 222
Cholesky method 148
City Group 36
classic gold standard 40
Classical Institutionalist tradition 19
climate change, may have become irreversible 211
Colander, D. 42, 96
collateral debt obligations (CDOs) 53, 56, 141
Columbia University 213, 244
Committee of Government Oversight and Reform 15
Commonwealth nations, preferential tariffs 107
competitive equilibrium, inefficient in face of uncertainty 92–3
complete information 88, 91, 92
computerization, problem of job loss 193, 201
Conditioned Shortfall (CS) 83–4
Conditioned Unexpected Risk (CUR) 83–4
Conditioned Value at Risk (CVaR) 83–4
Conduits 92, 103
counterparty risk index see CPI
correlation analysis 70
Index

‘cost push inflation’ 234
Crafts, N. 124, 125
creative accounting 38
creative destruction 119, 213–14
credit, spurred speculative investments
232, 241
credit boom 24
holding companies operating on
‘margins’ 105
credit crisis, wrong to define situation
as that of risk 55
credit crisis and recession, ‘protective
belts’ 29
credit cycles 23–4
credit default swaps (CDS) 53, 68, 104,
141
credit-driven boom 146
credit expansions, artificial 2, 33
credit risk, best held by retail banks
and hedge funds 66
CreditMetrics/Risk Metrics 71
crisis of 2008
cause profitability of speculative
economy 220
fed by artificial credits 242
not financial or economic, is global
211
paradigm’s faulty theory of price
and 128
proximate cause within financial
sector 124
crisis during 1930s 102
critique and evaluation, growth and
cycles 114
Croft, J. 56, 61
‘crowds out’ real asset investment 4,
134
crucial experiments 51, 57
current crisis as epic recession 133–6
current recession
not purely financial phenomenon, has
‘real’ roots 114
Type I Epic Recession, economic
stagnation 135–6
Das, P. 14–15
Datastream 149–50
David, P.A., networks not computers
197
Debelle, G., price of one house 236
debt 21, 28–9, 134–5, 143, 189, 190,
240–41
household 136, 187
debt and credit role, largely absent 132
‘Debt and lending: a cri de coeur’ 22
debt-deflation-default 143
debt trap 223, 225, 243
debt-ridden economy, Japan-style
stagnation 22
deductive certainty 43, 44
deficits 184, 187, 190–91, 201
deflation 23, 34, 177
degree of belief probability, subjective
and logical 45
degree of disbelief 59
Dejuán, O. 6, 232
Deloach, S.B. 235
demand growth 196
Denmark 17, 19, 20, 210
deregulation of financial markets 189,
192, 201
derman, E. 63, 85
Desai, M. 117, 125, 126
destructive creation 213–14, 220
developing countries 6, 108, 109, 173,
199, 222
Deventer, D.R.van 83
distortions 33–4
diversification 3, 64, 69, 70–72, 84
divisible experiment, series of trials
50
dot-com bubble 6, 24, 124, 177
‘double dip’, may have happened
already 124
Dow Jones Global 149
dSGE models 1–2, 13, 28, 96, 235
dynamic sequences 118
Dynamic Stochastic General
Equilibrium models see DSGE
models
dynamics of capitalism, scope for
social action 120
Eastern Europe, domestic competitive
forces 173
economic booms, both high and low
interest rates in 242
economic conditions since 2007,
entirely unique 55–6
economic crisis 137–8
economic expansion, encourages speculation 19
economic fragility 137
economic growth, unsustainable 212
economic growth processes 114
economic nationalism 107
economic theory
  artificial credit expansion, no sustained development 34
  Keynesian ideas should be brought back 200
Economist, The 164
economists, blamed for not foreseeing crisis 87
economy, problem of market saturation 199
Edwards, S. 157
EEAG 53–4
‘effective demand’ 117
efficient financial markets, can bring high instability 91
efficient market hypothesis see EMH
efficient markets 185
Eichengreen, B. 91, 101
Ellis, H.S. 118
Emergent Countries 74, 104
EMH 3, 88–91, 128
empirical evidence, problems at source of today’s crisis 91
empirical modelling, description of historical data 147
employment multiplier 224
endogenous money 26, 231
Energy Intelligence Group, traded crude oils 149
entrepreneurial errors, provoked by cheap credit 35
environmental crisis 211–12
Epic Recession 4, 130
  consequence of internal endogenous forces 133
  major financial system implosions 134
  not only one price system 139
  viewed as ‘normal’ 133, 144
equilibrium models 24–8
errors in management, provoking financial crisis 40
EU 36–7, 183
euro 149, 150, 151, 224, 225, 233, 241
euro area 149
Europe 74, 106
European Central Bank, EU economies and 36–7
European Monetary Union (EMU) 224
European society for the history of Economic Thought (ESHET) 1
European Union see EU
euthanasia of the rentiers 231
excessive indebtedness, unsustainable ratio of debt/liquid assets 92
expectations 49, 57–8, 116
expectations and surprises, inseparable 59
experimental probability 45
‘fair market value’, new principles of 38–9
Fama, E.F. 88
Fan, Y. 154, 158
Fan, Y.H. 154
Fannie Mae 36, 175
fascism in Germany (1934) 107
fat-tail risk 3, 85
Febrero, E. 6, 9, 222
Federal Deposit Insurance Corporation (FDIC) 106
Federal Deposit Insurance Corporation Improvements Act (1991) (FDICIA) 180
Federal Open Market Committee (FOMC), concern about housing boom 176
Federal Reserve 36–7, 129
Federal Reserve Act, modernized 1991 181
Fiedler, M. 2, 42
financial crisis 2007–09 42
calculations were wrong 55
impact pervasive contractions in real economy 108
financial crisis, definition 178
financial fragility 132–7, 143, 223, 242
financial globalization, ‘eliminating’ credit risks 15
financial innovation 190
financial instruments 56
financial markets 91–2, 97
Index

financial models 90
financial and monetary system in 21st century 40
financial system, legal privilege given to private bankers 33
Financial Times 69, 213
financial turmoil, culprits speculators and regulators 223
financial wealth and real assets, distinction between 22
Finetti, B. 45, 61
fiscal austerity 106, 190
fiscal stimulus 190
Fisher, I. 166, 169, 214
Fitch Rating assessment of credit risk 55
flexible labour market 37
flow of finance, channelling for unproductive pursuits 103
flow-of-funds models 24, 26–8
Fogel, R.W. 202
Folsom, B.W. Jr. 108
foreign debt, prohibitive interest rates 8
foreign institutional investors (FIIs) 104
foreign trade deficit 208, 209, 210
Fox, J. 74, 85
fractional reserve ratio 33
France 37, 74
Freddie Mac 36, 175
free market economy 217
frequency probabilities 51, 70
frequency ratios 51–2
Friedman, B. 30
Friedman, Milton 42, 57, 105, 129–30, 222
Frisch, R. 120, 126
FTSE All World 149
Furlanetto, F. 153, 158
Galbraith, J. 13, 124
game theory, uncertainty and 64
García Montalvo, J. 232, 244
Gaussian bell curve, probability distribution 55
Gaussian Copula models 71
Geithner (Treasury Secretary) 190
General Accepted Risk Principles (GARP) 65

general equilibrium 1, 13, 92, 235
general purpose technologies (GPTs) 119
German Ifo Institute Report on the European Economy 2009 53
Germany 37, 74, 102–104, 106
Gerrard, B. 49, 20, 61
GFC 160, 163–4, 167
Glass-Steagall Act 93, 105
global economies, need innovative financial systems 181
Global Financial Crisis see GFC
global money parade 134, 143
gold standard 40, 102, 105, 110
globalization 8, 192, 209
Godley, W. 17, 22–4, 26–8, 187, 239
golden age of capitalism (1950–70) 6, 191
Goldman-Sachs 65, 107
Goodwin, R.M. 119, 121
government sponsored enterprises see GSEs
Granger causality (block exogeneity) test 148
granularity 72
Graziani, A. 26, 231
Great Depression of 1929 1, 3, 5, 8, 34, 101
banking system ruptured 107
birth of macroeconomics 213
culprit, Chairman of US Federal Reserve 222
Latvia and 214, 217
parallels with what is happening today 109
green revolution 198
Greenspan, A. 5–6, 14–15, 21, 27, 35, 242, 243
inquiry commission 173, 182
low interest rates fuelled credit expansion 110
testimony before Financial Inquiry Commission 5, 173, 222, 243
underpricing of risk worldwide role in crisis 53
wage inflation and 187
Gualerzi, D. 6, 190, 192–3, 197, 199
Haberler, G. 118, 126
Hahn, F. 122
The first great recession of the 21st century

Hamilton, J.D. 152, 156
hard landing 58–9
Harrison, F. 17–18, 25

Power in the land. The (1983) 19
Harrod, R.F. 118–19
Hayek, F., 39, 43, 112, 125, 168
Austrian School of Economics 33, 146
exogenous shifts in money interest rate 120
period-of-production triangles 117
Theorem of Economic Impossibility of Socialism 35–6
Collected Works vol. IX 115
Monetary Theory and the Trade Cycle 122
Prices and Production 117, 122
Hedge funds, diminish correlations 74
herd behaviour 25, 64–5, 69, 89, 146, 186
heterogeneous behaviour complex 96
hi-tech bubble, technology bubble 189
Hicks, J.R. 117, 119, 129
history of economic thought (HET) 61, 163–9
house price bubble, engendered by lower interest rates 176
housing market 16, 24, 237, 240
Howitt, P. 114, 123
Hudson, M. 17, 22, 26–7
Huerta de Soto, J. 2, 33, 38
Hume, D. 43–4, 49, 57
Hungary, speculative economy 220
Hybrid Keynesianism 128–9, 131–2, 140–42, 144
Iceland, speculative economy 220
ICTs 113, 119, 124, 192, 194, 196–7
Ignorance, based on incomplete information 44
IMF 14–15, 108, 148–9, 173
India 34, 107, 109
individual decisions, result of optimization 88
induction, inductive inference 43, 45, 88
industrialized countries 107, 183
inflation, distinguish between produced and non-produced goods and assets 236
information and communications technology see ICT
innovation, destructive side 117, 119, 193, 201
innovation, growth, cycles and finance 112
input-output models, flow-of-funds models and 26
Institute for New Economic Thinking 128, 130
institutionalists 2, 19, 213
insufficient transparency, asymmetric information and 3
inter-war perspectives, nature of growth and cycles 114
International Accounting Standards (IAS) 38–9
international coordination, needed in regulation and supervision 68
International Monetary Fund see IMF
international roots of financial crisis 173–4
capital and collateral-based solutions 179–80
concerns about unsustainable housing boom 176–7
future of subprime lending 180–81
growth of US subprime market 174–5
inadequacy of existing management systems 177–9
role of GSEs 175
internet, the 194–5
investment determined by levels and changes in interest rates 133
not simply driver of effective demand 118
investment management 178
Ireland, credit expansion 37–8
irrational exuberance 25, 31, 35, 38, 202, 203
irregularity in markets, characteristic of 71
IS-LM 160
investment boom 6
Italy 107

Jackson, T. 212, 221
Janszen, E. 17, 22–3, 25
Index

Japan 36, 74, 103–104, 149
J.P. Morgan Risk Metrics 65, 71
Journal of the History of Economic Thought 165

Kahn, R. 115
Kaldor, N. 117, 125, 126
Kalecki, M. 4, 112–13, 115, 120–21, 123–5
Kaletsky, A. 15, 31
Kates, S. 5, 160, 169, 170
Keen, S. 17, 23–7
key world indicators 57
Keynes, J.M. 2, 4, 9, 42–5, 214
Animal Spirits 49–50, 60, 185
centrality of human action 120
complexities of money and finance 121
conditions of risk 55
critique of Say's law 122, 162
dismantled 'real balance effect' 140
expectations 51–2, 57, 59
frequency probabilities cannot be used 56–7
international rate conventional phenomena 231
labour market main indicator of recovery 212
Malthus as his precursor 122–3
markets and supervision 184–5
nature of every economic situation 60
neglectful of technical innovation 113
proposals after World Wars rejected 10
recessions result of too little demand 160–62, 169, 237
response to Great Depression forgotten 185
risks of economy led by speculative investment 234
on state of confidence 50, 58
theory of underemployment 102
Treatise on Money 115, 120, 122, 215
Treatise on Probability 47
uncertainty concepts 24, 26, 47, 53, 64
unemployment equilibrium 4, 113, 116, 122
we lack basis to form probabilities 48, 54
Keynesian discourse attention on money rate 115–16
Keynesian legacy 200
Keynesian map 124–5
Keynesian model 109, 112–13, 160, 164
Keynesian policies 5, 106, 162, 183, 186
Keynesianism in post-war Europe, pre-Keynesian neoliberal ideas 1970s 110
Knight, F. 2, 42, 45, 49, 51
conditions of risk 55
distinction between risk and uncertainty 47
estimate of an estimate 46, 50, 58
expectation and surprise 59
expectations 57–8
frequency probabilities cannot be used 56–7
nature of every economic situation 60
a priori and statistical probabilities 45–6, 49
Risk, Uncertainty and Profit 44
uncertainty concepts 53
knowledge and expectation, economic theory and 43
knowledge and uncertainty 44–5, 59
Kondratiev, N. 112, 115, 119, 125
Krugman, P. 13, 183–6, 200
‘Kuhnian’ terms, economics pursued narrow ‘normal science’ 130
labour market liberalization of 36
lack of confidence, caused by insufficient transparency 94–5
Latvia
agriculture priority for in 1930s 218
direct foreign investment 6
economy has gone through five stages 205
false solution of drop in government expenditure and tax increases 219
fixed price solution 217–18
The first great recession of the 21st century

1990s 208–209
200–208
220
207–208, 210
209–10
210
210
204, 209
204, 209
28, 239
47–8
36, 58, 108, 179, 243
113, 123
59
65, 67, 104, 109
114, 119
58, 66–7, 186
142
45
66
183
192
194
194
194–6
196–7
187
188–9
187–8
197–9
93–6
112
115, 117
9, 185
70
115, 117, 120, 125
120
106
116, 127
68–9
26, 28
17–22
19, 132–3, 140, 143–4
122
B.B.
71
73–4
212–13
241, 243, 244
73–4
83
165–8
44, 62
71
39
192–3
196–7
184–7
184
190
191–2
190
187
foreign trade balance negative since
GDP growth from speculative economy
inflation
multiplier effect of growth in
real estate became object of
regional inequality highest in
rise in crime rate
‘the fat years’ (2002–07)
Lavoie, M.
Lawson, T.
Lehman Brothers bankruptcy
Leijonhufvuds, A.
lenders of last resort
leverages
Lipsey, R.G.
liquidity
‘loanable funds’ theory of investment
logical probability, related to evidence
Long Term Capital Management Fund
Long-term depression and new markets
Can we count on new technologies?
barriers to consumption
computer literacy and skills
ICTs: technology, investment, new markets
relationship
time in the home and domestic capital
why new technologies do not breed strong expansion
Crisis and economic theory
Crisis and long-term depression
fiscal stimulus and new markets
deficits and markets
stimulus and the deficit
making of the crisis
recovery and crisis
slowdown and resilience
new markets in 2000s
looking for the culprits
low central bank rates
LSE
Lucas, R.
Ludd, N.
Lundberg, E.
Luxemburg, R.
Maastricht Treaty
Machlup, F.
macroeconomic scenarios
macroeconomy models
Madsen, J.B.
mainstream economics
market imperfections
market turbulence
market values, subjective assessments and fluctuate
Markowitz’s portfolio, theory mean-return and variance risk criteria
Marx, K
McCombie, J.
mean-return
measurable risk, controlled by macroeconomic models
Medema, S.
Meeks, J.G.T.
Merton, Robert, concept of bankruptcy
methodological individualism
methodology
microeconomic models, estimation errors
middle classes
Middle East
Minsky, H. 9, 19, 29, 114, 124, 223, 233–4
Mises, L. von 2, 33, 35, 146
Modigliani-Miller theorem 19
monetarism 129, 130
monetary equilibrium 116, 122, 127
Monetary Union 7, 37, 224, 235
monetary shock 34
Monopoly, central to capitalism 121
Monte Carlo solution 83
Moody’s approach to rating CDOs 55
Moody’s/KMV credit risk company 54
Moore, B.J. 231
moral hazard 8, 36, 180
Morgan-Stanley 107
mortgage contract 237, 242
mortgages 5, 53, 54, 56, 58, 68, 72, 93, 173, 174, 175, 176, 181, 188, 189, 191, 201, 202, 210, 222, 223, 232, 233, 237, 242, 246
motivational models of human behaviour 25
MSCI World 149
MSCIEMF 149
Mun, Thomas 167
Müller, K.-P. 15
multiplier 116, 119, 127, 153, 157, 158, 205, 224, 237, 238, 243
multivariate statistical models (VARMA, GARCH) 73
Myrdal, G. 115
monetary Equilibrium 116
National Association for Business Economics 14
national individual optimization 19
natural rate, defined in several ways 116
natural rate of employment 66
Nell, E. 190, 196–7
neo-Austrian commentators 112
neo-mercantilism 107
neoclassical economists 28
new accounting rules 37–8
New Deal 105, 190, 200
‘new finance’ 186
New Macroeconomic Consensus (NMC) 231
New York Times 15
Nobel prizes for Economics, authors behind theorems 92
nominal wages, rise when tensions in labour market 235
Non Inflationary Rate of Interest (NIRI) 235
Non-Accelerating Inflation Rate of Unemployment (NAIRU) 235
non-neutrality of money 4
non-optimizing behaviour 2, 13, 28
Northern Rock 57, 178
Obama administration 108–109, 160, 184–5
objective probabilities 46–7
O’Donnell, R. 47–8
off-balance-sheet operations, new form of risk 67
Ohlin, B. 115–16, 118, 214
oil price (brent) 150–52
oil prices pressures, created by rise 35, 188, 198, 202
oil shock years 146, 152
ontological uncertainty, probability and 48
OPEC 150, 152
originate to distribute 92
O’Rourke, K.H. 101
Osoatynsk, J., Collected Works of Kalecki 120
Ottawa Agreement (1932) 107
over-indebted economies, fragility of 239, 243
over-indebtedness, recessions, deeper and longer 7
Pacioli, L. 39
petrol price, negative correlation prior to 2008 74
Petrov, K. 109
Phillips Curve 129, 141, 235
Pigovian classicism 115, 140
planned economy 217
policies in retrospect 104–107
Pope, D.H. 163
post-1945 paradigm of economic thought has collapsed 128
post-crisis risk management stronger regulatory core capital 67
Post-Keynesian 1, 118, 223, 229
The first great recession of the 21st century

post-Wicksellian lessons, ‘profit’ rate is important 118
Presley, J.R. 116
price escalation, driven by demand phase over the cycle 141
price fluctuations, unexpected changes in economic variables 88
‘Price Regulating Commission 216
Prince, Chuck (CEO of Citigroup) 69
private bankers, creators of deposits in credit expansions 33
probabilities 45, 46, 47, 49, 57
probability, degree of rational belief 2, 45, 48
probability and uncertainty 43
productive investment, principle of acceleration 232
protectionism 102, 107, 109
Queen Elizabeth’s question 59
racial discrimination 110
random guesses 16
Rasmus, J., ‘Epic Recession’ 4
rating agencies 56, 67, 90, 93
rational behavior 90, 184, 186
Rational Expectations Hypothesis 61, 88, 129
raw materials, price rise in 35
RDF, alternative methodology to VaR 65–6, 83–5
Reaganism-Thatcherism, failed experiments with Friedman monetarism 130
real asset investment, speculative forms of finance and investment 134
real estate bubble 6, 109, 189, 190, 192, 201
regulators, chronic failure 178
regulatory capture 91, 95
regulatory codes, directors’ payments and bonuses 67
regulatory system, failed under crisis pressure 178
representative agent 89
Reserve Bank of Australia 15, 31
residential investment, demographic changes, financial conditions and price 232
Retro-Classicalists 128–9, 131, 138–9, 140–42
Ricardo, D. 123, 166, 169
Richebächer, K. 18, 21–3, 25, 33
Richebächer Letter, The 20
Rigbon, R. 153
risk 42, 47, 54, 65–6, 68, 71, 85
Risk Adjustment Return on Capital (RAROC) 65
Risk Conditioned to and Economic Scenario 83
risk control in finance: recent history 63–6
market correlations, risk and recession 2008 73–82
RDF method 83–5
methods to measure risk and recession of 2008 69–73
risk management after the crisis 67–9
risk diversification VaR measurement and 73
Risk Dynamics into the Future see RDF
risk management 2, 64, 67–9, 177
risk measurement, should be called into question 60
risk perception, differs according to risk bearer 70
risk spread and insurance, cannot cover every kind of risk 69
risk theory 2–3, 84
risk and uncertainty, control concepts of selection and diversification 69
risks of regulatory capture 95
rival hypotheses, precondition for additivity 53
Robbins, L. Great Depression 117
Robertson, D.H. 115–16
Robinson, J. 87
role of history of economic thought 160–61
contrast with classical policy 161–3
history of economics and economic policy 164–5
rolling window analysis 150
Romer, C. 101, 105
Roosevelt, President, New Deal (1934–39) 105–106
Roubini, N. 18–19, 23
Ruiz, G. 2, 64, 68–9, 83
Runde, J. 48, 62
Russia exports to Latvia 207
S&P Case-Shiller index for housing prices 109
S&P Citygroup 149
S&P index negative correlation prior to 2008 74
Sacks, B. 153, 159
Salmon, F. 56
Samuelson, P.A. 91, 119, 129, 190, 192
saturation 199, 237, 240
saving glut 6, 222
Say’s law 5, 122, 162, 164
scenarios
   historical 73
   hypothetical 73
   systematic 73
Schiff, P. 18, 22
Schumpeterian endogenous growth models 114
Schumpeter, J. 4, 43, 112
   Capitalism, Socialism and Democracy 212
   ‘creative destruction’ 213–14
   finance interwoven with ‘real’ decisions on investment in innovation 123
growth innovation-driven, monopolistic and unstable 124–5
innovative dynamism of capitalism 121, 124–5
reference to Wicksell’s cumulative process 113
theory of cycles 115
   Theory of Economic Development, The 119
Schwartz, A. 222, 244
Securities and Exchange Commission (SEC) 106
securitization 54, 66–7, 109, 176, 180, 233
Segura, J. 3
Sen, S. 3–4
Senate Banking Committee Federal Reserve concern about GSEs 175
   ‘seriable’ experiments 50
Shackle, G.L.S. 2, 42–5
   concept of disbelief 52, 58
   crucial experiment and probabilities 57
   disbelief as ‘potential surprise’ 52
   ‘dynamics’ 116
   expectation and surprise 59
   expectations and 51–2, 57
   frequency probabilities cannot be used 56–7
   nature of every economic situation 60
   questions usefulness of probability concepts 50
   uncertainty linked with surprise 53
   use of imagination 59
Shiller, R. 18–19, 27, 60, 64, 185–6, 200
   contagion effect, feeding bubbles 25
   on mortgages 68
   stock market and infatuation with stock market 22
   short boost, long-term drag 190
Sims, C.A. 148, 156
   single risk factor 71
Skidelsky, R. 44, 53
Skriner, E. 4, 146
Skujenieks, Margers (PM of Latvia), ‘crisis tax’ 216
Smith, Adam 166, 168, 184
   Wealth of Nations 167
Smoot-Hawley Tariff Act (1930) 107
social polarization discourage push into the middle classes 199
social safety nets, no provision in 1930s 101
socialism, 33, 35, 40, 41, 212, 221
soft landing 58–9
   ‘Solow paradox’ 125
Solow, R. 129
Solowian growth theory 119
Sorensen, J. 17–20, 23–4
Soros, G. 5
Soviet period
   Baltic States prosperous 205
   Latvia and Soviet military industry 207
Spain
   booming household residential investment 224–5
The first great recession of the 21st century

development natural rate of interest and inflation 235
European Monetary Union and 7 eurozone and 6
first short-circuit of economy 239
growth from 1996–2007 led by house prices 7, 242
house ownership high 232
house prices lower than CPI 237
increased borrowing needs 227, 229
increasing burden of debt 230
increasing leverage and financial risk 230, 233
inflation 227–8, 236, 239
lowest real rates for a decade 223–5
second short-circuit of economy 240–41
speculative bubbles in real estate 227, 228, 229
trade and current account deficit 224, 226, 241
unemployment rates in 7, 224, 226
special bankruptcy facility 180
special purpose vehicle see SPV
specific risk or idiosyncratic 71
speculative asset investing 131, 133
speculative economy
creating money from nothing 220
profitability falling 214
speculative finance 130
speculative investing, capitalist investment process 130
speculative shift 133–4
SPV 54
stability, departure from due to ‘external forces’ 138
stagnation 137, 192
standard economic theory, every economic situation as risky 60
Standard and Poor, assessment of credit risk 55
StatBank Denmark data 20
state of confidence 49, 58
Steedman, I. 195
Stern, Gary (former President of Federal Reserve Bank of Minneapolis) 179
Stevens, G. 15, 31
Stiglitz, J. 187, 201, 203
stimulus packages 160–61, 184, 190, 198
stock-flow consistent models 30
stock market chaos, in distrusted cross-border flows 105
stock price crash (1987) 36, 177
Stockholm School 4, 112–13, 123
stopped clock syndrome’ 15–16
stress testing 65
structural vector auto-regression see SVAR
subjective probabilities, formed under conditions of uncertainty 46
‘substitution effect’ 139–41
Supervisory Capital Assessment Program from US banks Federal Reserve System 72
surprises, destroy conventions 59
sustainable development 157, 204, 209, 210, 217, 218, 219, 223
sustainable development, morality and human development 219
SVAR 147–8, 152, 156
Svetlova, E. 2, 42
Swiss Bank Corporations 65
systemic failure 42, 61, 98
systemic risk or state of the economy 71

Talbott, J.R. 186, 201
Taylor, J. 242, 245
Theorem of Economic Impossibility of Socialism 33, 35
Theoretical probability 45
Theories of the trade cycle 118
theory-based modelling, mathematical formulation, adding stochastic components 147
Thirlwall, A. 244
Thornton, H. 166, 169
time series on world commodity prices, non-energy spot prices 149
‘too big to fail’ 179
Tooke, T. 116, 166, 169
toxic assets’ 223, 242
traditional principle of prudence 38–9
tranches of risk/return profiles 54
Transformational Growth 196, 203
transparency 8, 67, 94, 97, 109
Trías, R. 2, 63
true uncertainty, unique situations in business 47
Tugan-Baranovsky, M.I. 120
Type II Epic Recession, transformed into bona fide depression 135
UK 19, 103, 163, 178
UK Financial Services Authority, Northern Rock and 178
Ulmanis, Karlis (PM of Latvia) fixed prices 216–17
uncertain outcomes, situation of risk 42
uncertainty 13, 26, 28, 42, 53–4, 56–7, 59, 63, 66, 69, 83
governs economic world 43
key element in booms and busts 7
measurability of probabilities 45–6
role of 24
stock market transactions and property market 103
three characteristics of 64
uncertainty situation, typical in business 46
under-estimation of risk, demand for risky assets 56
underpricing of risk, no way to estimate liquidity 56
understanding crisis 42–3
knowledge and uncertainty 43
incompleteness of knowledge of the future 43–4
Keynes: an immeasurable relationship 47–50
Knight: distinction between risk and uncertainty 45–7
Shackle: a non-probabilistic alternative 50–53
outlook 59–61
understanding financial crisis 53–9
unemployment 34, 110, 118, 123, 162–3
1907 in USA 135
difficulty in bringing down 184
involuntary 185
raised by raising interest rates 141
unemployment rate 25 per cent 101
higher in Great Depression 177
unique experiment, non-divisible and non-seriable 51
University of Castilla-la Mancha (UCLM) 1
unregulated markets, danger of 9
US Bureau of Labor Statistics 163
US companies that outsource jobs, end of tax breaks 109
US Department of Housing and Urban Development 175, 182
US dollar, invoicing currency of crude oil trading 146
US House Financial Services Committee 14
USA 74
1960s financial instability in domestic economy 129–30
centre of 2008 crisis 129
biggest lender now biggest borrower 4, 103
buy American 109
comparison with China 199
dependence on debt growth 22
economic growth financed by private debt growth 28
GI Bill, market for buying houses 191
Glass-Steagall Act 105
growth since 2000 dot-com crash ‘phony’ 24
growth unsustainable, driven by households’ debt growth 23
GSEs 175
housing prices rising 58, 174
mid-1960s price began to escalate beyond normal historical levels 129
minority homeownership above 1994 levels 181–2
providing loans to Germany, Dawes Plan 1924 102
recession of 1907–14 4
regime change and Keynesian stimulus 106
Richebächer on recession in 21
scratching of H-1B visas for professionals from India 109
The first great recession of the 21st century

trade and fiscal deficits gave way to unfulfilled expectations 110
Type I and Type II Epic Recession 135
unemployment rates 163
voluntary saving has fallen to negative rate 34
world interest rate and 149
Young Plan (1929), loans for Germany 103
USA and European governments, nationalizing private banking system 36
USA Today 15
USD/EUR exchange rate 147, 157
low probability of exogeneity 152
widely used currency in world 154
USD/EUR exchange rate (exruseu) 148, 151–2
Uzbekistan 206

valuation of assets, deficient 94
Value at Risk see VaR
value determination 137
VaR 55–6, 65, 69, 73–4, 77
Vasicek model 71, 83
Veblen, T. 212–13
vector auto-regression 150
vicious circle 237
Vienna model 115–17, 121, 123
virtual reality 196
virtuous circle, from technology 192
Volker, Paul (US Federal Reserve) 21

Wall Street ‘exotic’ products 186
Wall Street crisis, worst since end of World War II 101
Wärneryd, K. E. 64
war debt 102, 106
warning systems and early detection bubbles 97

Washington Consensus 9
Web, the, technical determinism 195
Weight, correlated with evidence 47
Weintraub, R. 164–9
West Texas Intermediate (WTI) 149–50
What-if method 83
who predicted the crisis? 13–14
common elements of alternative views 21–4
comparing the paradigms 24–8
credit crisis surprise 14–15
other assessments 15–21
Wicksell, K., 115–18
Interest and Prices 115
Lectures on Political Economy 115–16
Wicksellian tradition 113, 115
Wilde, O. 212
Winnet, Catherine and Adrian 4, 112
Woodford, M. 231, 235, 245
workers and unions, cause of recession not ending quickly 140
world economy, dominance of finance in 104
world interest rate 149, 151
World Trade Organization (WTO) 109
World War I 102, 107, 119, 135
World War II, result of Great Depression 107–8
Woytinsky, W. 215–16
Wray, L.W. 23, 28, 239
WTO regime 109
Young Plan 103
Yu, Y. 161, 170
Zalts, A. 215–16
Way out of the Crisis, The 214
Zezza, G. 17, 22, 30