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Theory of Investment

Hyman P. Minsky Ph.D.

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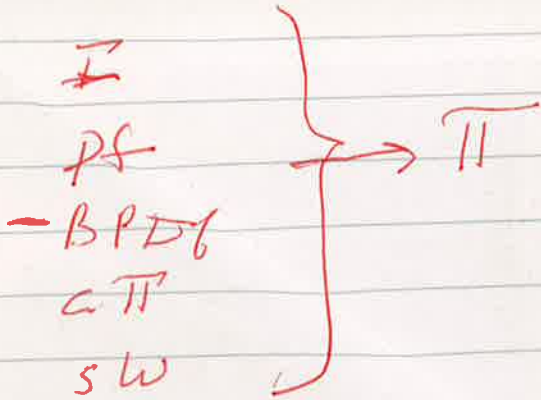


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- Π distributed
- 1) Interest & principle on debt
 - 2) Profit taxes
 - 3) Div
 - 4) Salaries + Bonus
 - 5) Retained Earnings

capitalist accumulation
essentially forced.

... through the financial
 structure.

construction vs

take out financing

stitutions for (commercial banks)
 construction financing

stitutions for take out financing
 Savings banks +
 other mortgage holders

contracted savings
 etc.

de market it looks like
 a, b etc form a demand for
 financial instruments \rightarrow demand for

Hyman P. Minsky

Colombia Lectures

Wednesday November 25

Lecture # 2

Theory of Investment

Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes the by-product of the activities of a casino, the job is likely to be ill-done. J.M. Keynes The General Theory

I) Accumulation vs. allocation as the first problem of Economics Refer back to lecture 1.

The centrality of investment in the Keynesian perspective.

The development of a financial theory of investment and an investment theory of business cycles.

II) The Neo-classical Theory of Investment.

A) Production function with variable proportions

B) From quantity to time rate

C) The changing econometric evidence

1) The Kuh, Meyer, Lintner arguments

2) The Jorgenson Victory

3) The Fazzari evidence.

D) The marginal efficiency of capital

misinterpreted

III) The financing of positions in capital

A) Liquidity Preference and asset prices

*Capitalist
accumulation
in so far
as bubble
based on
financial
structure*

B) The distinction between enterprise and speculation. The quote from Keynes:

IV) The price of investment output.

V) The role of internal finance.

VI) External Finance: Hedge, speculative (roll over) and Ponzi Finance

A) Lenders risk and borrowers risk

B) Borrowing and lending on the basis of margins of safety

1) the cash flow margin

2) the equity margin

a. The stock exchange crash and the stripping away of margins of safety

c. The Financial Instability Hypothesis

VII) Uncertainty

*Money - quantity - not lending as
response to heightened uncertainty*