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Hyman P. Minsky Ph.D.

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Monetary Policy in a Complex and Ever Changing Financial Environment

by

Hyman P. Minsky
Professor of Economics
Washington University
St. Louis, Mo.

(A talk before the Stonier Graduate School of Banking at Rutgers University on Friday, June 16th, 1967)

Topical Outline.

- I. In the United States, over the postwar period there have been marked changes in the business of banking and in the structure of financial markets.
- II. The elaboration of the financial structure has resulted in a much closer articulation of payments to receipts and thus leads to the development of conditions conducive to financial instability.
- III. The American economy became euphoric over the period 1964, 5 and 6 and this euphoria combined with a complex and flexible financial system led to a situation where a financial tremor developed.
- IV. The events of the past four years are of special importance for an understanding of how the American economy works and as such throw considerable light on deep issues of economic theory.
- V. The domain of responsibility of the Federal Reserve System and the capabilities of economic policy have to be reconsidered in the light of postwar experience.

Questions

True or False.

1. The Federal Reserve system is responsible only for the behavior and stability of member banks.
2. During the postwar period American banking has been a particularly stagnant and non-innovative sector of the economy.

Multiple Choice

1. The development of the Federal Funds market
 - a) made commercial banks wholly independent of Federal Reserve Monetary policy action
 - b) increased the likelihood of bank failures
 - c) made a given volume of bank reserves more efficient in supporting deposits
 - d) made commercial bank reserve position management more difficult
 - e) had absolutely no effect on bank management of Federal Reserve controls
2. The money market 'crunch' of late summer 1966 was
 - a) designed to cause a setback in housing starts
 - b) a plot by bankers to put the savings and loan industry in its place
 - c) a throwback, in part, to the financial panics that occurred regularly prior to the 1930's
 - d) a normal occurrence every late summer or fall
 - e) the result of balance of payment difficulties