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Handwritten Notes for Minsky's PhD Thesis titled The Theory of The Firm

Hyman P. Minsky Ph.D.

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The Theory of The Firm:

The traditional theory of the firm, including the work of Chamberlain - Robinson, involves the combination of an external market phenomena, a transformation function (a factor of production) and a behavior equation - that the firm maximizes profits. In the static theory of production the transformation function is given. Then, given the transformation function, for every set of factor market prices for factors, a unique incremental cost per output is obtained. Once the external conditions are given in the product market, there is a unique profit maximizing position. Such a theory is sufficient if the problem is the determination of the allocation of resources given the 'empirical' assumption that firms maximize profits.

When the problem is shifted to the determination of investment decisions, the maximizing assumption would involve a definite investment - disinvestment result for every change in external conditions: the behavior of factor prices and the behavior of market prices. A theory of Aggregate Demand, combined with the transformation of Aggregate Demand into particular forms demands would lead, to a specific sets of pro investment decisions, and disinvestment decisions which when summed would determine aggregate investment. ~~induced by the initial shift in that is the result of these~~ aggregate demand. Such a development of an autonomous shift

in demand levels, an increased ^{change} increase in investment, followed by a newly determined equilibrium has been developed in a series of essentially mechanical models under the guise of the interaction of the accelerator and the multipliers. The question as to whether a guaranteed growth in consumption - ~~can~~ ^{been} ~~resulting~~ - ^{determined} expansion of income has been answered in terms of the mechanics of 'investment necessary to maintain consumption and the investment complementary to a given volume of production'. No accelerator model which neglects the behavior of the investing limit can be considered to have much economic validity. To ~~demonstrate~~ ^{point out} that a second order difference or differential equation has periodic solutions; and to identify the terms in such an equation as 'economic' variables is an interesting but essentially unimportant development. More important in the line of differential equation models is the stochastic assumptions made by Frisch in his Propagation & Impulse analysis.

Go into the Marx paper & then relate the shift that will take place to

- 1) whether the firm is profit maximizing
- 2) whether the firm can finance the shift.