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Theory of Investment

Hyman P. Minsky Ph.D.

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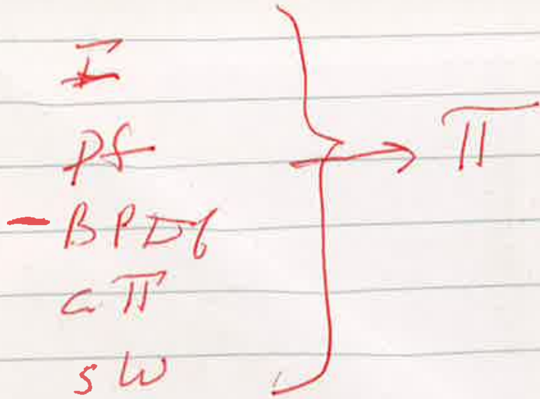

Π distributed
1) Interest + principle on debts
2) Profit taxes
3) Div
4) Salaries + Bonus
5) Retained Earnings

[...]apitalist accumulation
[...] essentially forced.

[...]ned through the financial
[...]ructure.

[...]nstruction vs
take out financing

[...]stitutions for (commercial banks)
construction financing

[...]titutions for take out financing
savings banks +
other mortgage holders
contractual savings
etc.

In market it looks like
a, b etc form a demand for
financial instruments → demand for

Hyman P. Minsky

Colombia Lectures

Wednesday November 25

Lecture # 2

Theory of Investment

Speculators may do no harm as bubbles on a study 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 developement 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 Prefernce and asset prices

B) The distinction between enterprise and speculation. The quote form 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 - liquidity - not lending as response to heightened uncertainty