The Modelling of Financial Instability.

Instability refers to an abnormally large response in a short period of time to an event. Financial instability refers to the speculative booms and debt deflations that have occurred from time to time and which have been exceedingly destructive of normal function of the economy. Most of the time, the financial system is not unstable.

In spite of the importance of this phenomenon, the process by which an initially stable financial system is transformed into an unstable one has been little studied. No formal model of financial instability is known to the author. Keynes in *The General Theory* described how a "boom" or what he called a "crisis" affected the determination of employment. The standard econometric forecasting models so poorly specify the financial system that instability, if it occurs, is an exogenous shock to the model.
The Modelling of Financial Instability
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A constrained accelerator multiplier
finance model is integrated with the
financing of spending and speculation to
derive a model which shows how a
boom sets the financial stage for
a crisis and a debt deflation. This
model is used to interpret changes
observed in the history since 1960.
In order to model financial instability, it is necessary to:

1. Identify attributes of the economy that measure the stability of the financial system.
2. Define relations which determine these attributes and how they change.
3. Integrate these attributes in a model that jointly determines the real and financial attributes of the economy.

The integrating concept in the model is cash flow.

All economic events can be identified.

Cash flow is the integrating concept that will be used in the modeling of financial instability. In principle, every financial instrument sets up contractual commitments to pay cash which may be owed, claimed, or contingent and in principle can proved or incurred. For some payment made in any period in these instruments should be measurable. At the present state of the measuring counterparts economy, some balance sheet data for various sectors is available, but cash payment data is not. If they attributes of the economy which measures true stability of the financial system and the degree of the accumulation of debt payment with cash receipts, the reserve holding...
of cash relative to cash payments, and the exposure of debt to credit risk in their assets: from the flow fund data on balance sheets proxies for the desired measures can be estimated. One purpose of the paper will present time series data on these measures and attempt to discuss their significance.

The cash flow commitment due to financial contracts at any time are the exactly post financial transactions. The process of acquiring assets by first entering into contract that give money today for money in the future will be examined in detail. The acceptance of credit risk by both borrowers and lenders and the way in which credit risk is measured is examined. The acceptance of liability structure is tied in to asset acquisition (some from the stock of capital assets and some new investment). Thus investment, from many capital assets (and some telecommunications and the beginning of costs), and the beginning (financial assets) are related to this process by which a financial liability to a system becomes convertible.

In a final exercise an explanatory multiple accelerate model that is contained
Initially, in order growth by financial instruments is transformed into a 'buy' model in the beginning, constant curve demanded. But in the past few years among the financial variables, the value of the real estate objective credit instruments and financial instruments benefited income.

It's known how the maintaining and accelerating growth of investment is necessary to stability the financial instruments. That a new financial system downturn will radically change the value of financial instruments and with their two values: capitalisation and loan. Due to every growth of investment...