

Study Questions on Minsky

Minsky viewed the money market as the place where the balance between cash commitments and cash flows could be seen most clearly. People who have maturing commitments in excess of their current cash flows face the need to refinance in order to satisfy the “survival constraint”, and that demand for refinance shows up in the short term money rate of interest.

- 1) What is a cash commitment? What is meant by the “two-edged quality” of a cash commitment? What distinguishes robust from speculative from Ponzi finance?
- 2) Henry Simons “good financial society” is certainly a system of robust finance, since there is no private debt at all. Sketch the balance sheet relationships (business, household, government) that would exist in such a world. In terms of our dichotomy between government bank and bankers bank, is this an extreme version of the government bank system?
- 3) The Financial Instability Hypothesis suggests that there is a tendency for robust finance to give way to speculative and then Ponzi finance. Why? Why do people make cash commitments in the first place? Why do cash commitments that finance a profitable investment wind up relaxing future survival constraints?
- 4) Minsky views the lender of last resort function as central to monetary policy. How does lender of last resort work (balance sheets please)? Why does it work to forestall an incipient crisis?
- 5) Minsky viewed the US in the 1970s as an “ailing bank”. Persistent negative cash flows at the international level led to persistent depreciation of the dollar and rising domestic inflation. What parts of this analysis carry over to the present day, and what parts do not?