ΟΙΚΟΝΟΜΙΚΟ ΠΑΝΕΠΙΣΤΗΜΙΟ ΑΘΗΝΩΝ

ΤΜΗΜΑ ΟΙΚΟΝΟΜΙΚΗΣ ΕΠΙΣΤΗΜΗΣ

Χρηματο – οικονομικές κρίσεις: τα διδάγματα της ιστορίας

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Διάλεξη 4η

Minsky's three-part taxonomy

Minsky distinguished between **three types** of finance:

- hedge finance
- speculative finance
- and Ponzi finance—on the basis of the relation between the operating income and the debt service payments of individual borrowers.

Hedge finance

A firm is in the hedge finance group if its anticipated operating income is more than sufficient to pay both the interest and scheduled reduction in its indebtedness.

Speculative finance

A firm is in the speculative finance group if its anticipated operating income is sufficient so it can pay the interest on its indebtedness; however the firm must use cash from new loans to repay part or all of the amounts due on maturing loans.

Ponzi finance

A firm is in the Ponzi group if its anticipated operating income is not likely to be sufficiently large to pay all of the interest on its indebtedness on the scheduled due dates; to get the cash the firm must either increase its indebtedness or sell some assets.

Minsky’s three-part taxonomy

Minsky’s hypothesis is that when the economy slows, some of the firms that had been involved in hedge finance are shunted to the group involved in speculative finance and that some of the firms that had been involved in the speculative finance group now find they are in the Ponzi finance group.

Ponzi finance

The term ‘Ponzi finance’ memorializes Carlos Ponzi, who operated a small loans company in one of the Boston suburbs in the early 1920s.

Ponzi promised his depositors that he would pay interest at the rate of 30 percent a month and his financial transactions went smoothly for three months.

In the fourth month however the inflow of cash from new depositors was smaller than the interest payments promised to the older borrowers and eventually Ponzi went to prison.

Ponzi finance

The term Ponzi finance is now a generic term for a non sustainable pattern of finance. The borrowers can only meet their commitments to pay the high interest rates on their outstanding loans or deposits if they obtain the cash from new loans or deposits.

Since in many arrangements the interest rates are very high, often 30 to 40 percent a year, the continuation of the arrangement requires that there be a continuous injection of new money and often at an accelerating rate.

Initially many of the existing depositors are so pleased with their high returns that they allow their interest income to compound; the cliché is that they are 'earning interest on the interest.'

As a result the inflow of new money can be below the promised interest rate for a few months. But to the extent that some depositors take some of their interest returns in cash, the arrangement can operate only as long as these withdrawals are smaller than the inflow of new money.

Charles Kindleberger κεφάλαιο 3 ΄Κερδοσκοπικές Μανίες’

1.1. Ο ορθολογισμός των αγορών.

1.2. Ο ορθολογισμός του ατόμου και ο παραλογισμός των αγορών .

1.3. Μετατοπίσεις (displacements).

1.4. Αντικείμενα κερδοσκοπίας .

1.5. Εθνικές διαφοροποιήσεις ως προς τη ροπή προς το κερδοσκοπείν.

Λέξεις και φράσεις κλειδιά

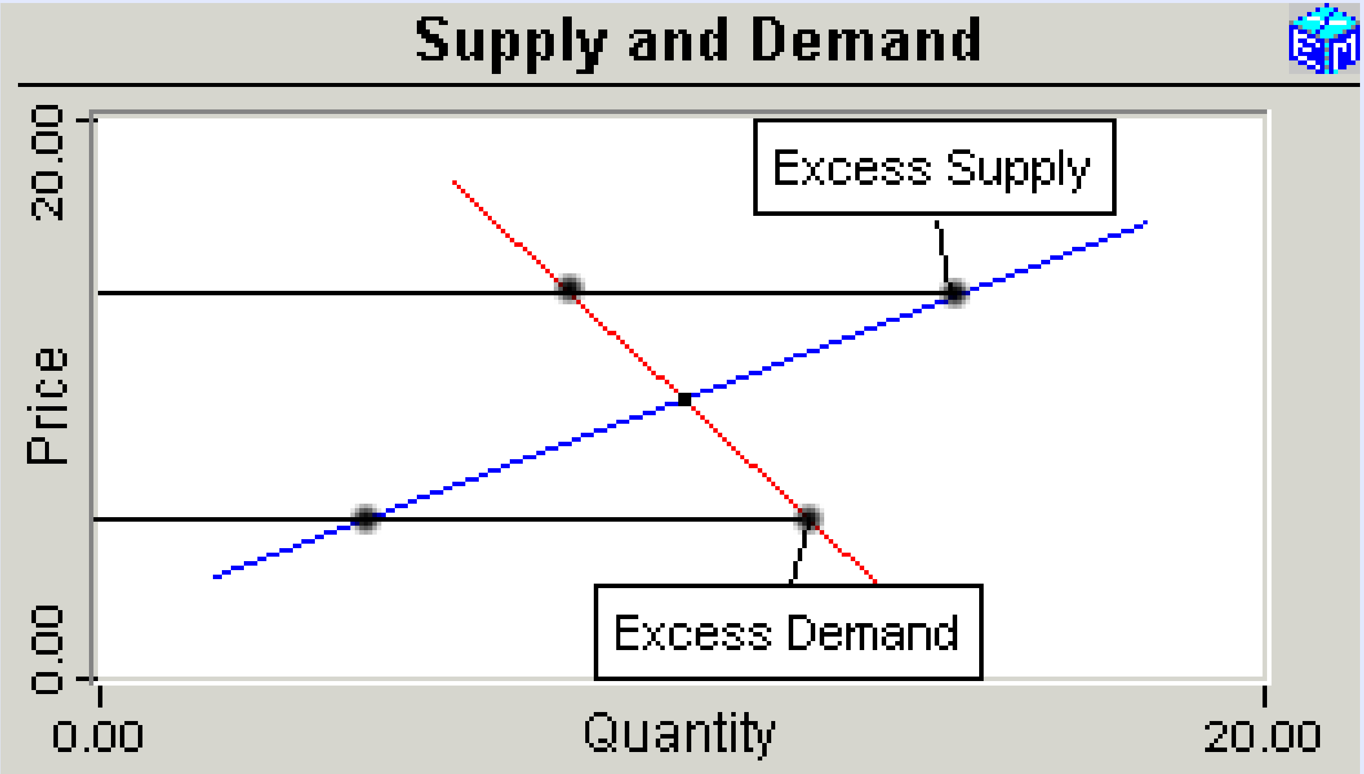
•‘rational expectations versus adaptive expectations’ assumption
•’all the information is in the price’
•‘destabilizing speculation’/’craze’
•’mob psychology’/hysteria
•’money illusion’
•‘under-pricing of innovations’
•‘undue risk taken by new entrants’
•‘the two stages of speculation’/ ‘insiders (momentum investors) and outsiders’ (amateurs)
•’the fallacy of composition’
•‘cobweb’ deestabilizing responses to exogenous shocks
•’repression of contradictory evidence’
•‘A displacement is an outside event or shock that changes horizons, expectations, anticipated profit opportunities.’

Επομένο μάθημα…
Χρηματο-οικονομικές κρίσεις με έμφαση στο δημόσιο χρέος

•‘This Time is Different: A Panoramic View of Eight Centuries of Financial Crises’.
•Carmen M. Reinhart, *University of Maryland and NBER.*
•Kenneth S. Rogoff, *Harvard University and NBER.*

Appendix: **The Cobweb Model**

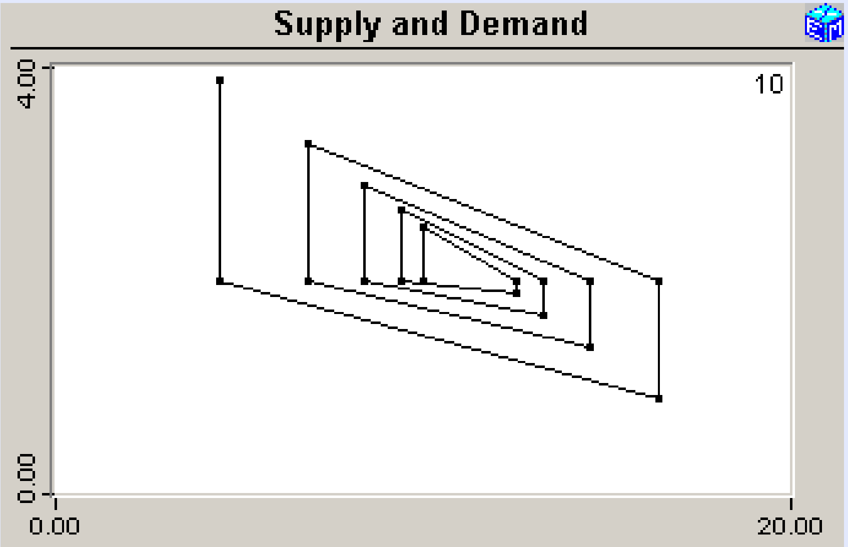
In the basic model of supply and demand, the price adjusts so that the quantity supplied and the quantity demanded are equal. The precise mechanism that achieves this equilibrium is not always explicit.



Appendix: **The Cobweb Model**

The Cobweb Model shows how achieving a supply and demand equilibrium might be so automatic if, as seems reasonable, the suppliers set the price and the consumers react with a quantity demanded. For some slopes of the demand and supply curves, the equilibrium can be unstable.

The Cobweb Model is the classic demonstration that dynamic behavior by economic agents might not converge to a stable equilibrium with supply equal to demand. This application provides two ways to graph the outcome and lets you experiment with the key parameter that determines whether the outcome is stable or not.



Appendix: **The Cobweb Model**

The Inventory-Based Pricing Model relaxes the assumption that supply must equal demand to consider how maintaining an inventory might moderate the possible instability. Retail stores, for example, very often buy an inventory, set a price, and then wait to see what demand might be.
The Inventory-Based Pricing Model illustrates that the Cobweb Model might or might not be a realistic challenge to supply and demand equilibrium. Introducing an inventory buffering the difference between supply and demand and letting prices respond to the level of the inventory can be sufficient to eliminate the instability observed for the basic Cobweb Model.

Source>> http://www.econmodel.com/classic/cobweb.htm