7. A Re-Formulation of Minsky's 'Two-Price Model'

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Abstract: This paper aims to improve Minsky's two-price theory by modeling an artificial, pure credit, closed capitalist economy in which production firms are split into a sector producing capital goods and a sector producing consumer goods. The result is a new model which allows us to retrieve some of the most disputed results of Minsky's analysis of financial fragility and economic instability.

Keywords: Post Keynesian dynamic models; Minsky's two-price model; financial instability hypothesis

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1. Introduction

In Passarella (2012b) a kind of updating of Minsky's economic analysis has been proposed, in which the so-called 'financial instability hypothesis' has been cross-bred with inputs from the Theory of the Monetary Circuit and the current Post Keynesian Modeling. That modification was done within a one-good model where capital goods were regarded as a mere portion of total (homogeneous) output of firms. Such a simplifying hypothesis allowed us to take the first step towards analyzing the effects of both 'capital-asset inflation' and consumer credit on the financial soundness of corporate sector. At the same time, the very hypothesis of homogeneity of output did not permit us to include explicitly the ratio between the (demand) price of capital-assets and the supply price of capital goods. However, that ratio – which roughly corresponds to the well-known Tobin q – is one the key analytical tools in Minsky's theory (see, for instance, Minsky 1976, 1977, 1986). Its importance lies in the fact that, on the one hand, it allows us to regard inflation as a process of change in relative prices, and, on the other hand, it permits us to consider the relationship between financial markets and

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