Macroeconomics Dynamics – 110012-ENG
(Financial Sustainability – 110006-ENG)

Prof. Anna Maria Grazia Variato

Final Exam – June 22nd 2018

Name: ____________________________________________________________

ID number: ______________________

• The assessment is a take home test.
• Students are allowed 10 days before giving back the answer to the professor.
• The answers must be returned either personally, or by e-mail. The exam must be signed by the student either at the end and at the bottom of each page. The file sent by e-mail must be pdf format (be sure to ask for a receipt).
• The exam consist of 4 questions:
  o two questions are selected by the professor. They are short questions: each answer 1000-1500 words; the student have a choice among three suggestions
  o two questions are free choice by the student. They are long questions: each answer 2500-3000 words. The choice set is presented below.
• Please use the format suggested by the professor in order to return the final.

Part A

1. Illustrate the concept of critical finance. (This question is not supposed to be answered by students who made a presentation on Toporowski book during classes: please recall the presentation here)
2. Fazzari’s lectures: Recent financial crisis and secular stagnation: was Hansen right?
3. The distinction among moments and processes in macroeconomic dynamics.

Part B

4. Fill with the text of your choice:
   _______________________________________________________________________
   _______________________________________________________________________
   _______________________________________________________________________

5. Fill with the text of your choice: (This question is not supposed to be answered by students who made a presentation during the course: please recall below the presentation)
   _______________________________________________________________________
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1. Using the notions of borrower’s and lender’s risk show how minskian position differ from mainstream position on microeconomic investment.

2. The role of State intervention in Minsky: types of intervention. Complete, coherent, stabilizing? If any, there exist an implicit priority order in the setting of policies? Does it eventually differ from mainstream?

3. In Vercelli (2011) pages 60-61 you find the following statements:

   “We have seen a tendency of economic units to fluctuate pro-cyclically in the space of financial conditions defined by kit and k*it. This is a necessary prerequisite for analysing how the aggregate of units behaves. […] We should take into account that the dynamic behavior of single units crucially depends on the dynamics of other units, as they are interconnected by a network of financial relations: the outflows of a unit translate into inflows of other units and vice versa. As soon as we take account of this complex interaction, the relatively regular cyclical behaviour of an isolated unit blurs, since in the real world it is heavily disturbed by intrinsically unpredictable decisions taken by other units; these decisions are in their turn crucially affected by the dynamic behaviour of the economy as a whole. Therefore, only in a third stage can we come back to single units and study in more depth their dynamic behaviour. We have thus to study the dynamic behaviour in the space of financial conditions of a ‘representative point’ that characterizes the average financial conditions of all units at a certain economy at a certain moment of time. By aggregating inflows and outflows of single units we obtain aggregate outflows et, aggregate inflows yt, an aggregate financial ratio kt and an aggregate intertemporal financial ratio k*t. Analogously we get also a representative desired margin of safety 1–m and a centre v of the fluctuations of the representative point. We wish to emphasize that this process of aggregation is not simply a statistical device but largely the counterpart of a real phenomenon.”

According to your opinion does the author show a misunderstanding due to an implicit fallacy of composition?

4. In Toporowski (2005) page 104, commenting on Breit we can find the following passage “Inflationary credit is credit to which no additional commodity production corresponds, although it may exist in the future if additional production is undertaken with it.” What does this really mean both literally and as an implicit macroeconomic model?

5. What kind of questions were implicitly the drivers of classical analysis while assessing the stabilizing/destabilizing role of money/credit markets? Try to build a summary table of different positions and contrast likely conclusions (Toporowski, 2005 part I)

6. Considering the previous question, did the core of reflection change from classical economist towards economists of the beginning of the XX century? Were the fundamental questions the same? Try to build another comparative table (Toporowski, 2005 part II)

7. Contrast Hawtrey and Minsky: main similarities and differences.

8. Monetary theories of fluctuations vs. financial theories of fluctuations: pick up authors or theoretical foundations in order to emphasize the main differences or similarities.

9. The role of interest rates: do low interest rates improve macroeconomic conditions and/or stability?

10. “Who” does matter the most: the role of speculation and institutions in the genesis of instability.

11. What is “radical” and what is not in the building of a theory of financial instability? Does the answer change if you move from “instability” towards “sustainability”?

12. From models connecting AD-growth-income distribution towards models connecting AD-instability-inequality: does this passage explain the meaning of a theory on financial sustainability as an evolution of a theory of financial instability?

13. Why in the history of macroeconomics and in the conduction of policy did monetary policy win supremacy with respect to fiscal policy?

14. What kind of hypothesis are fundamental to the building of an “intrinsic” Keynesian model? Are they connected to the ones needed in order to develop a theory of endogenous financial instability?