The two-price model revisited. A Minskian-Kaleckian reading of the process of 'financialization'

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In Passarella (2011B) a kind of up-grading of Minsky's economic thought was proposed, in which his 'financial instability hypothesis' was inter-bred with inputs from the current heterodox literature. This up-grading was done within a one-good model where capital goods were regarded as a mere portion of firms' homogeneous output. This simplifying hypothesis did not permit us to include explicitly the ratio of the (demand) price of capital assets to the supply price of capital goods – i.e. the key analytical concept in Minsky's theory. This paper aims to improve the simplified model provided in Passarella (2011B) by considering explicitly an artificial, pure credit, closed capitalist economy in which production firms are split into two different sectors. The result is a new, although paradoxical, monetary circuit model which allows us to retrieve some of the most disputed results of Minsky's analysis of economic instability.

Key words: Post-Keynesian models, Stock-flow Consistency, Financial Instability

JEL classifications: B50, E12, E32, E44

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