



Journal of Post Keynesian Economics >

Volume 17, 1995 - [Issue 4](#)

195 | 213

Views | CrossRef citations to date

21

Altmetric

Original Articles

Finance and Economic Breakdown: Modeling Minsky's "Financial Instability Hypothesis"

Steve Keen

Pages 607-635 | Published online: 04 Nov 2015

🗨️ Cite this article <https://doi.org/10.1080/01603477.1995.11490053>

Sample our
Economics, Finance,
Business & Industry Journals
>> [Sign in here](#) to start your access
to the latest two volumes for 14 days

References

Citations

Metrics

Reprints & Permissions

Read this article

Share

STEVE KEEN

Finance and economic breakdown: modeling Minsky's "financial instability hypothesis"

From as long ago as 1957, Minsky has argued that an advanced capitalist economy with developed financial institutions is fundamentally unstable, and liable to fall into a depression in the aftermath of a period of debt-financed "euphoria." His strictures were comfortably neglected during the long boom of the 1960s, and even during the oil and Third World debt shocks of the 1970s. However, this hypothesis cannot be ignored after the long period of economic instability ushered in by the crash of 1987. The late 1980s were manifestly a period of euphoria, financial innovation supported the boom, and the desire of both corporations and banks to recover from excessive debt is, to lay observers at least, a major factor in the "jobless recovery" of the early 1990s. Clearly, current economic circumstances warrant a more considered evaluation of Minsky's theories.

This paper models four basic insights of the "financial instability hypothesis" on the foundation of Goodwin's limit cycle model: the tendency of capitalists to incur debt on the basis of euphoric expectations; the importance of long-term debt; the destabilizing impact of income inequality; and the stabilizing effect of government. The introduction of these concepts into Goodwin's framework converts his stable but cyclical system into a chaotic one, with the possibility of a divergent breakdown—the simulation equivalent of a depression.

Keynesian foundations

Minsky's financial instability hypothesis derives from his distinctive reading of Keynes, which is based largely on chapter 17 of *The General*

The author is in the Department of Economics at the University of New South Wales, Kensington, NSW, Australia. He would like to thank Carolyn Currie, Geoff Fishburn, Craig Freedman, Bill Junor, Peter Kriesler and two anonymous referees for comments on this paper.

Journal of Post Keynesian Economics / Summer 1995, Vol. 17, No. 4 607

> [Access through your institution](#)

Log in to Taylor & Francis Online

> [Log in](#)

Restore content access

> [Restore content access for purchases made as guest](#)

Purchase options *

[Save for later](#)

PDF download + Online access

- 48 hours access to article PDF & online version
- Article PDF can be downloaded
- Article PDF can be printed

EUR 48.00

 Add to
cart

Issue Purchase

- 30 days online access to complete issue
- Article PDFs can be downloaded
- Article PDFs can be printed

EUR 190.00

 Add to
cart

* Local tax will be added as applicable

Related Research

People also read

Recommended articles

Cited by
213

Information for

[Authors](#)

[R&D professionals](#)

[Editors](#)

[Librarians](#)

[Societies](#)

Opportunities

[Reprints and e-prints](#)

[Advertising solutions](#)

[Accelerated publication](#)

[Corporate access solutions](#)

Open access

[Overview](#)

[Open journals](#)

[Open Select](#)

[Dove Medical Press](#)

[F1000Research](#)

Help and information

[Help and contact](#)

[Newsroom](#)

[All journals](#)

[Books](#)

Keep up to date

Register to receive personalised research and resources by email



Sign me up



Copyright © 2026 Informa UK Limited [Privacy policy](#)

[Cookies](#) [Terms & conditions](#) [Accessibility](#)

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG



Taylor & Francis
by informa