

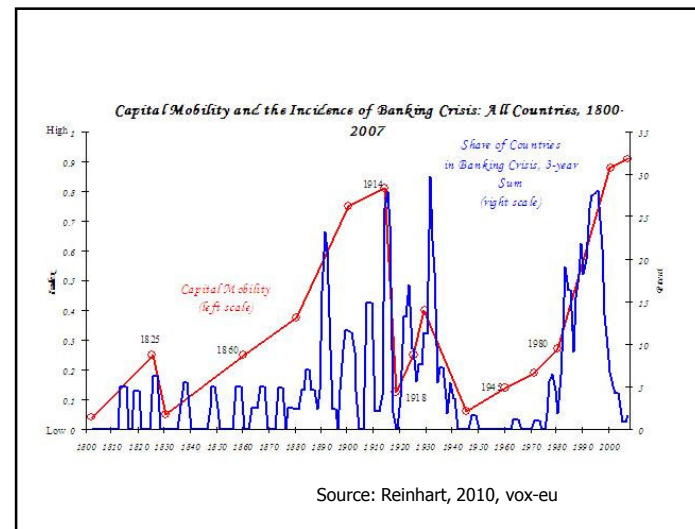
## Diploma Macro Paper 2

Monetary Macroeconomics  
Lecture 8

Origins of recent crises

Mark Hayes

1



## The Anatomy of a Financial Crisis

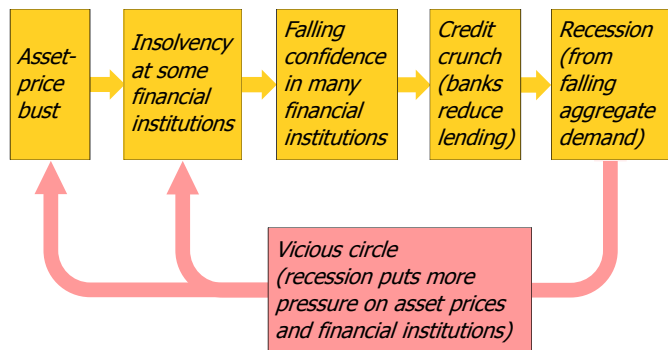
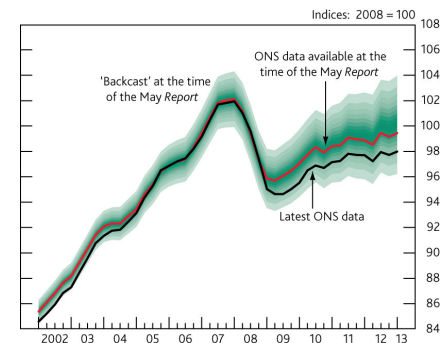


Chart A MPC's evaluation of GDP at the time of the May Report, ONS data at that time and latest ONS data<sup>(a)</sup>



Sources: ONS and Bank calculations.

(a) Chained-volume measures. The fan chart depicts an estimated probability distribution for GDP over the past. It can be interpreted in the same way as the fan charts in Section 5.

### Minsky's balance sheets

- Hedged
  - Debt can be repaid in full from cashflow
- Speculative
  - Interest can be paid from cashflow but repayment of principal depends on sale of assets or refinance
- Ponzi
  - Payment of interest depends on refinancing

5

### The balance of payments =

- current account balance
  - Exports less imports of goods (trade balance, NX in the model)
  - + exports less imports of services
  - + net cross-border investment income
  - + net cross-border labour income
- + capital account (net sales of securities to non-residents less purchases from non-residents)
- = official financing (e.g. forex reserves change)

6

### National income identity

$$NX = -S_F = S_G + S_P - I$$

$$I = S_G + S_P + S_F$$

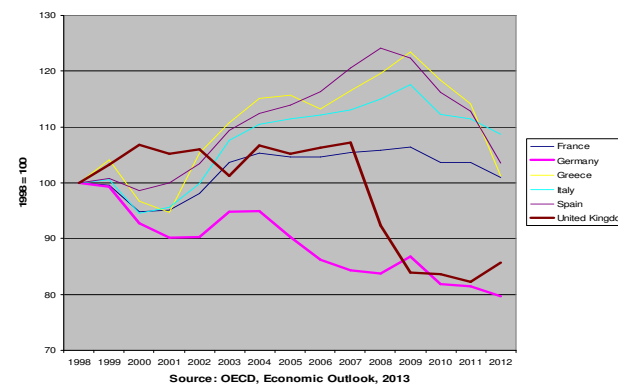
$$\Delta I = \Delta S_F$$

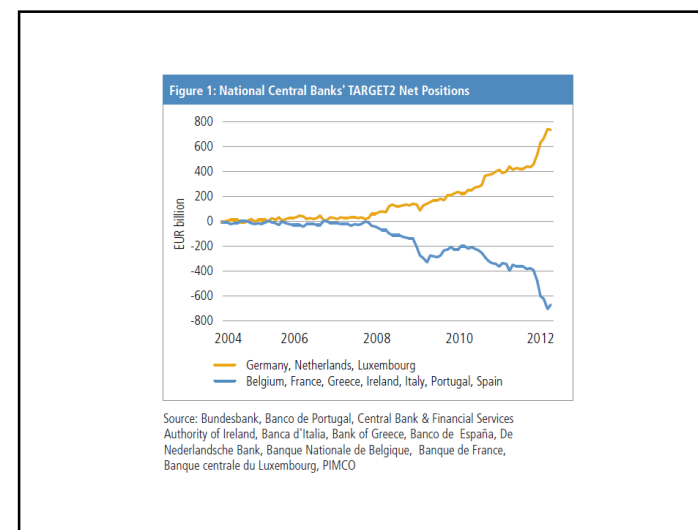
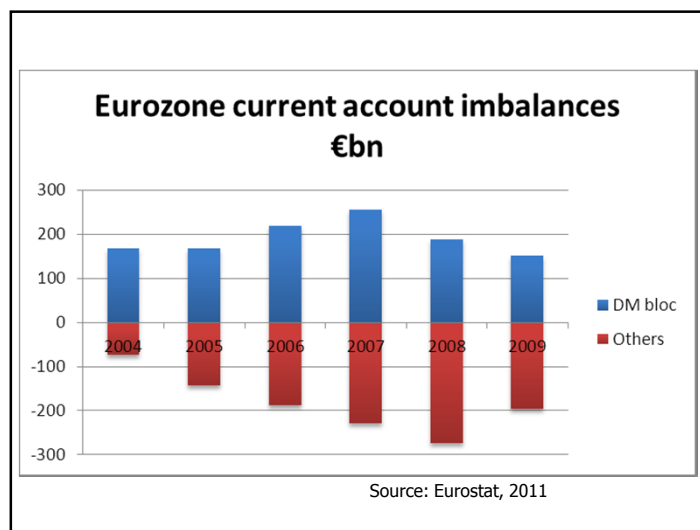
$$-\Delta S_P = \Delta S_F$$

$$-\Delta S_G = \Delta S_F$$

7

Relative Unit Labour Cost/  
international competitiveness





### Further reading

- Kindleberger, Charles P. (1989, 2/e) *Manias, Panics and Crashes*, Basingstoke: Macmillan
- Minsky, Hyman P. (1986) *Stabilizing An Unstable Economy*, New York: McGraw Hill
- Cesaratto, Sergio (2013) The implications of TARGET2 in the European balance of payments crisis and beyond, *European Journal of Economics and Economic Policies: Intervention*, Vol. 10 No. 3, pp. 359–382