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KAP 414
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Asset price dynamics in a stock-flow consistent macroeconomic model

Abstract: The currently dominant school of macroeconomic modelling - namely microfounded Dynamic Stochastic General Equilibrium (DSGE) has a hard time dealing with even the most basic empirical facts pertaining financial markets. Its tenets include the role of financial intermediation as merely a way to channel household savings into investment by firms, the multiplier theory of money supply, and stable equilibria occasionally perturbed by exogenous shocks - none of which are remotely true in practice. In this talk I present a simple macroeconomic model for asset price dynamics based on Tobin's theory of investment and portfolio balances. The model incorporates realistic aspects of financial intermediation, including credit creation for both investment and speculative purposes, endogenous growth cycles, and Minskyan financial instability.