Title: Money ,Business Cycle, and Institutional Change

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ABSTRACT

Neo-classical neglected the monetary aspects of Keynes's theory, for example, the relation bethind the interst theory of liquidity preference and the principle of effective demand.

However if we consider the linkage between monetary and real economy, we have to consider an important role which financing investment will play in macroeconomy. And we think that it is needed to study the monetary aspects of the multiplier-accelerator model analitically from the points of view of the development of the macrodynamics. About the analysis of the processes on the dynamics of cycle and growth, we know the monetary theory of business cycle(cf.Hawtrey[1928] and Fisher[1933]),and "Financial instability hypothesis" as an application of dynamic modeling Keynes's General Theory.

Minsky analyzed the multiplier-accelerator model with the alternative financial forms in 1957's paper. The condition in financing the investment (i.e., the interest rate) and the types of the finance (i.e., the types of the debt issued) are influenced by the behavior of the monetary system. And the parameters will be able to change with the state of the economic activity in the context of institutional change of the financial markets.

In section 2, we develop the extended multiplier-accelerator model by considering the monetary facter, government and mark-up pricing. In the section 3, we will discuss the implications of financial business cycle and the institutional change in the monetary and fiscal policy. In the last section, we will present some conclusions of this paper.