Abstract

The purpose of this thesis is to construct an endogenous macroeconomic model explaining the cause of financial cycles and systemic instability based on the financial instability hypothesis (FIH) published by Hyman Minsky (1982). FIH maintains that capitalist financial systems have an inherent disposition to financial instability because periods of economic prosperity encourage borrowers and lenders to be increasingly reckless which in turn lead to the formation of financial bubbles. The problem is approached by employing an adaptive expectations model based on stylized facts from Kaldor's and Kalecki's models with addition of behavioral equations implemented in an attempt to simulate market expectations.

JEL Classification	E02, E11, E32
Keywords	Instability, Macromodel, Cycles

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