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From debt crisis to financial crashes (and back)

In this talk I review a model merging two previously proposed models by Steve Keen, namely a monetary model of debt-deflation and a version with Ponzi destabilization, and recall the equilibrium properties and local stability analysis of the merged model. I then add an auxiliary stochastic model of financial markets based on a jump-diffusion process with endogenous jump intensity. This model captures main characteristics of Hyman Minsky's Financial Instability Hypothesis (FIH), and the Quantitative Theory of Credit (QTC) of Richard Werner, with an asset price bubble fueled by pure speculative credit and market crashes impacting the real economy. I then develop and study the fundamental properties of this extended model, its suitability to explain financial crisis and the relationship between growth and private credit. This is joint work with A. Nguyen-Huu.