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MAINSTREAM VERSUS HETERODOX VIEW ON FINANCIAL INNOVATION

Abstract:

There is much controversy surrounding something what is conventionally called "financial innovation". Yet, it should be in any case seen as a relatively substantial element in the functioning of modern economies. However, its general impact should be assessed from quite different perspectives, depending on its particular behavior, and subsequently, the role it plays in an economy. In terms of economic fluctuations, financial innovations are frequently assessed based on the cycle amplitude. The amplitude may typically be determined by efforts to evade a regulatory framework set by a central authority in the country. Most importantly, this contribution follows either Post Keynesian or Regulation School logic, trying to clarify business cycle volatility with respect to the intensity of innovative activities in the financial sector. At the same time, it also strives to specify the most important standpoints of contemporary mainstream economics. Its main conclusion is that higher intensity of financial innovation usually leads to a higher volatility of the business cycles, namely due to excessive pessimistic or optimistic sentiment and influx of supplementary credit. Additionally, at times it may also lead to so called self-fulfilling prophecy, which itself contributes to the major vector direction of the economy.

Keywords:

financial innovation; mainstream economics; Regulation School; Post Keynesian economics

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