

Why Study Money, Banking, and Financial Markets?

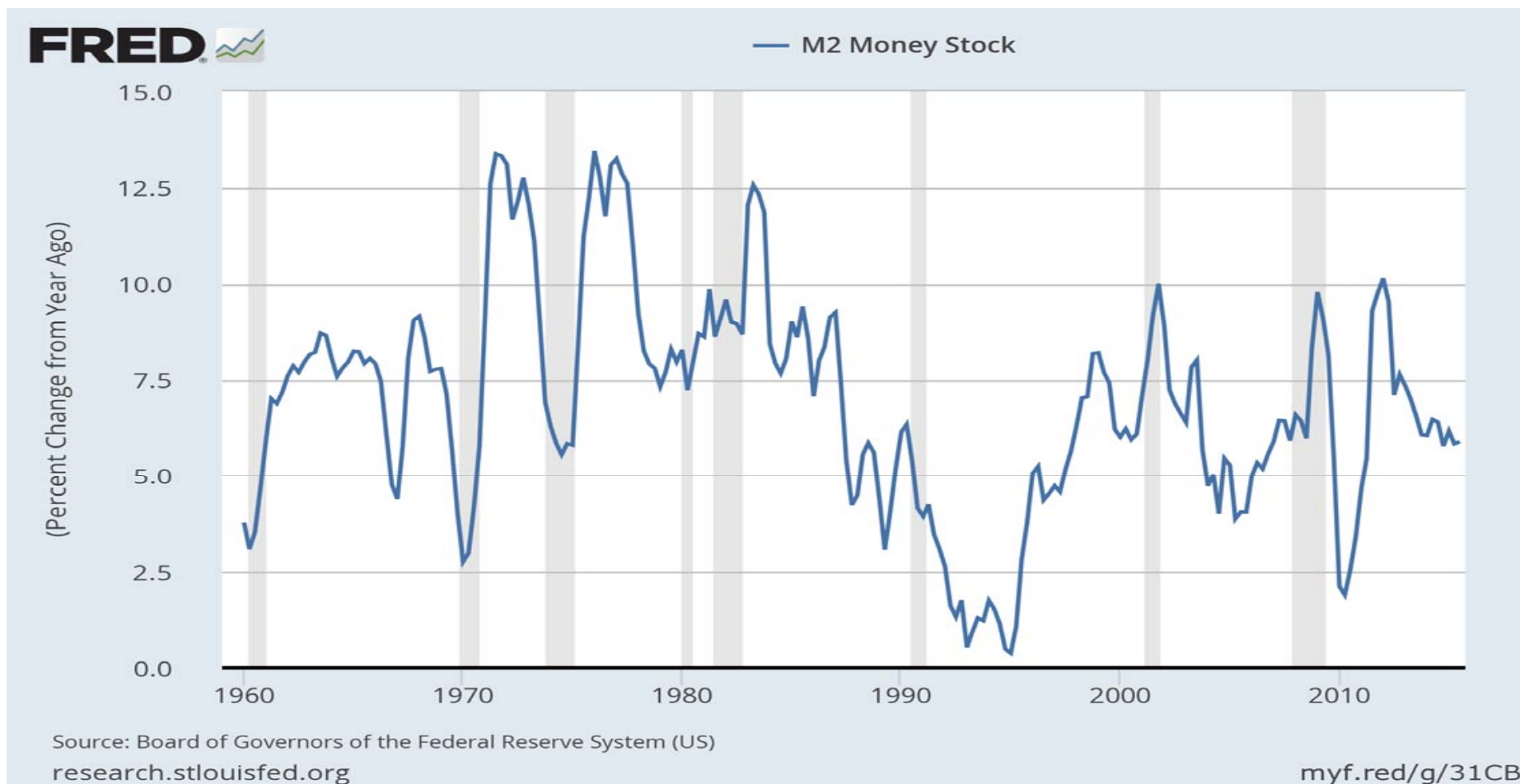
Money, Banking, and Financial Markets: What Are They?

- A. Money, such as fiat money, gold, silver, and cigarettes, is anything generally accepted as a means of payment.
- B. Financial institutions, such as banks, investment companies, and insurance companies, receive funds from deposits and premiums and in turn make loans to borrowers.
- C. Financial markets, such as stock markets and bond markets, transfer funds from savers to borrowers.

Why Study Money?

A. Money growth and aggregate output

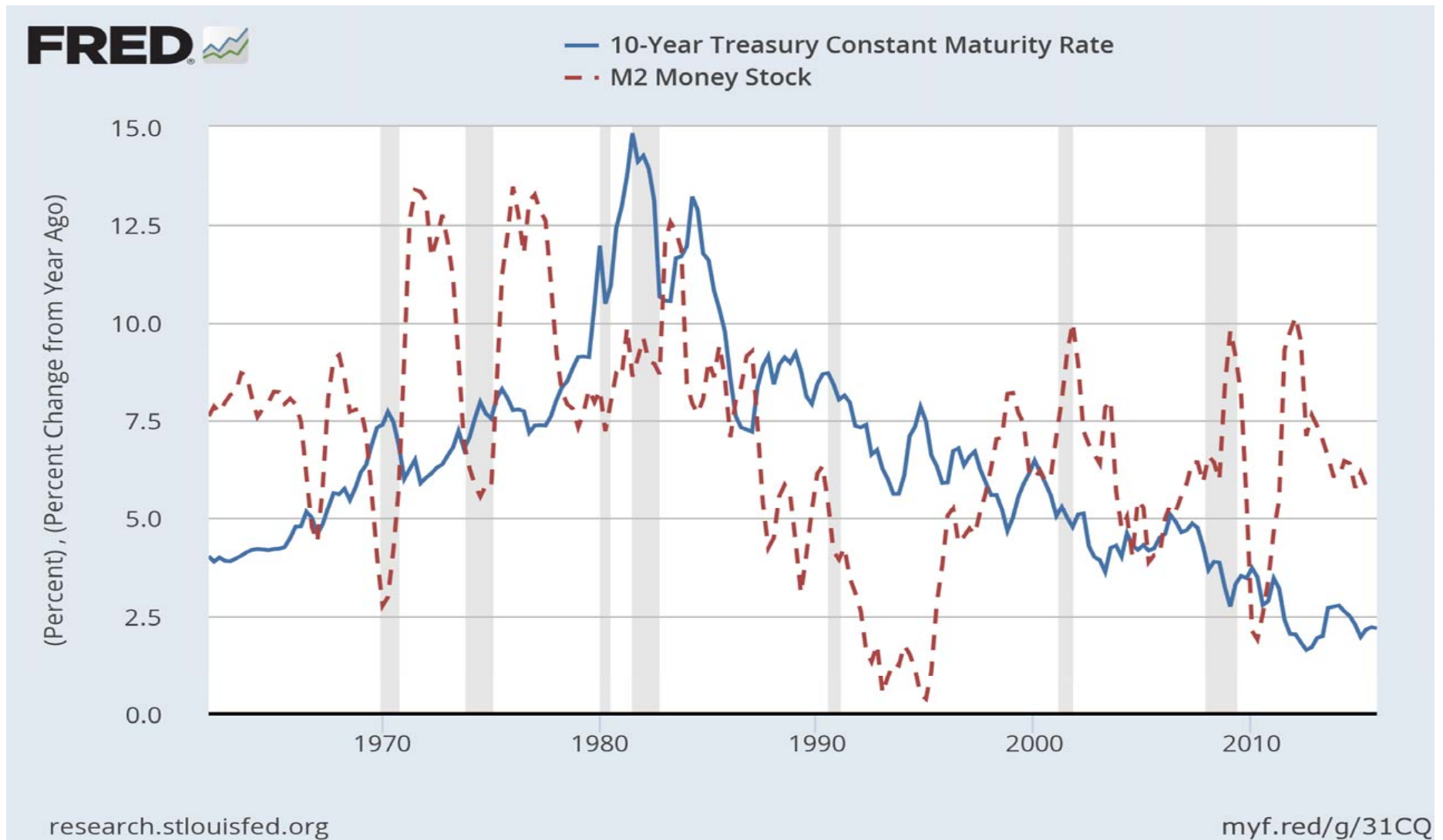
1. Money growth moves with output.



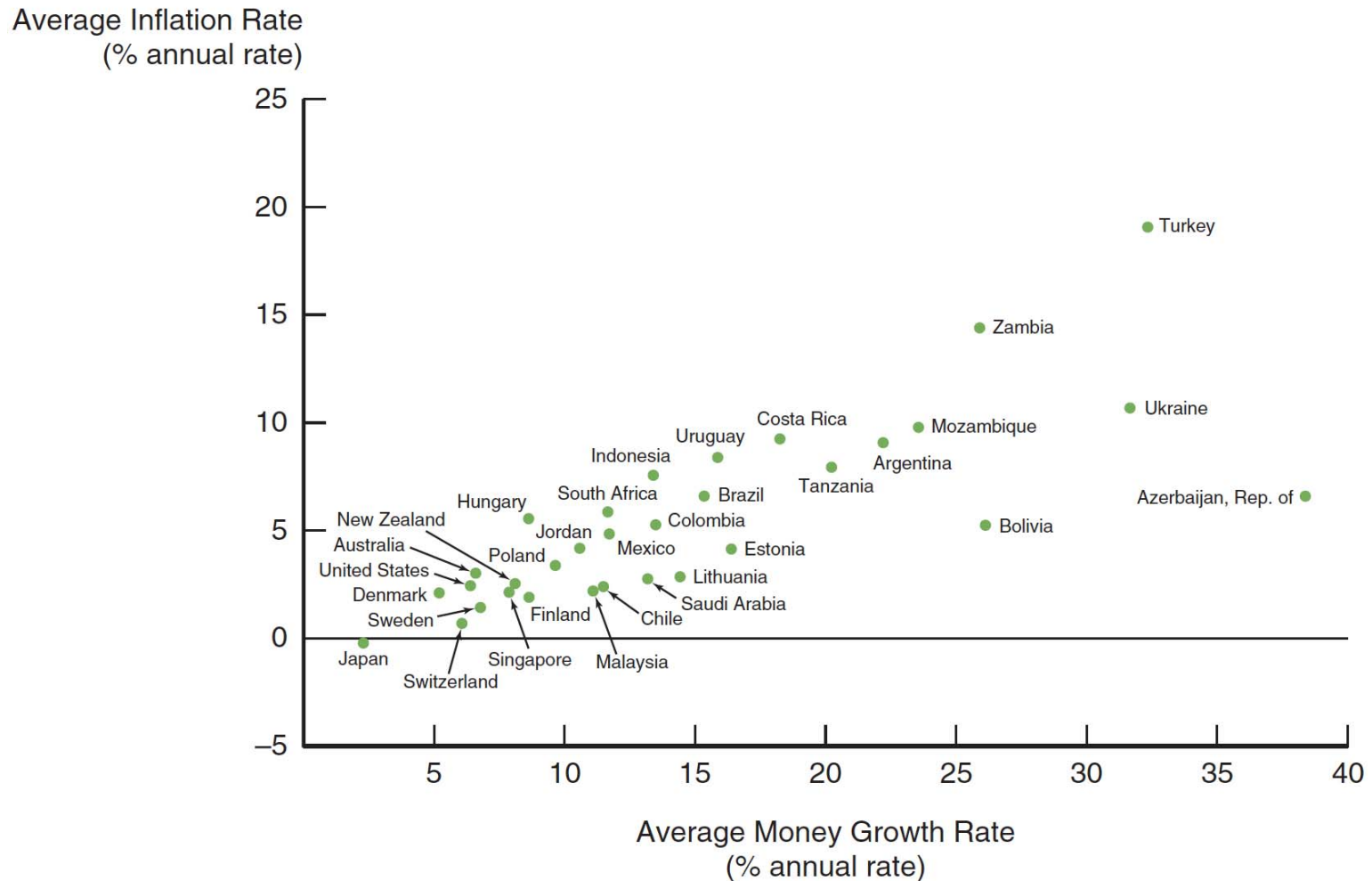
2. Does money growth affect aggregate output? Maybe.

B. Money growth and interest rates

1. Move with each other in 1950s, 1960s, and 1970s.
2. No clear relationship between them since 1980.



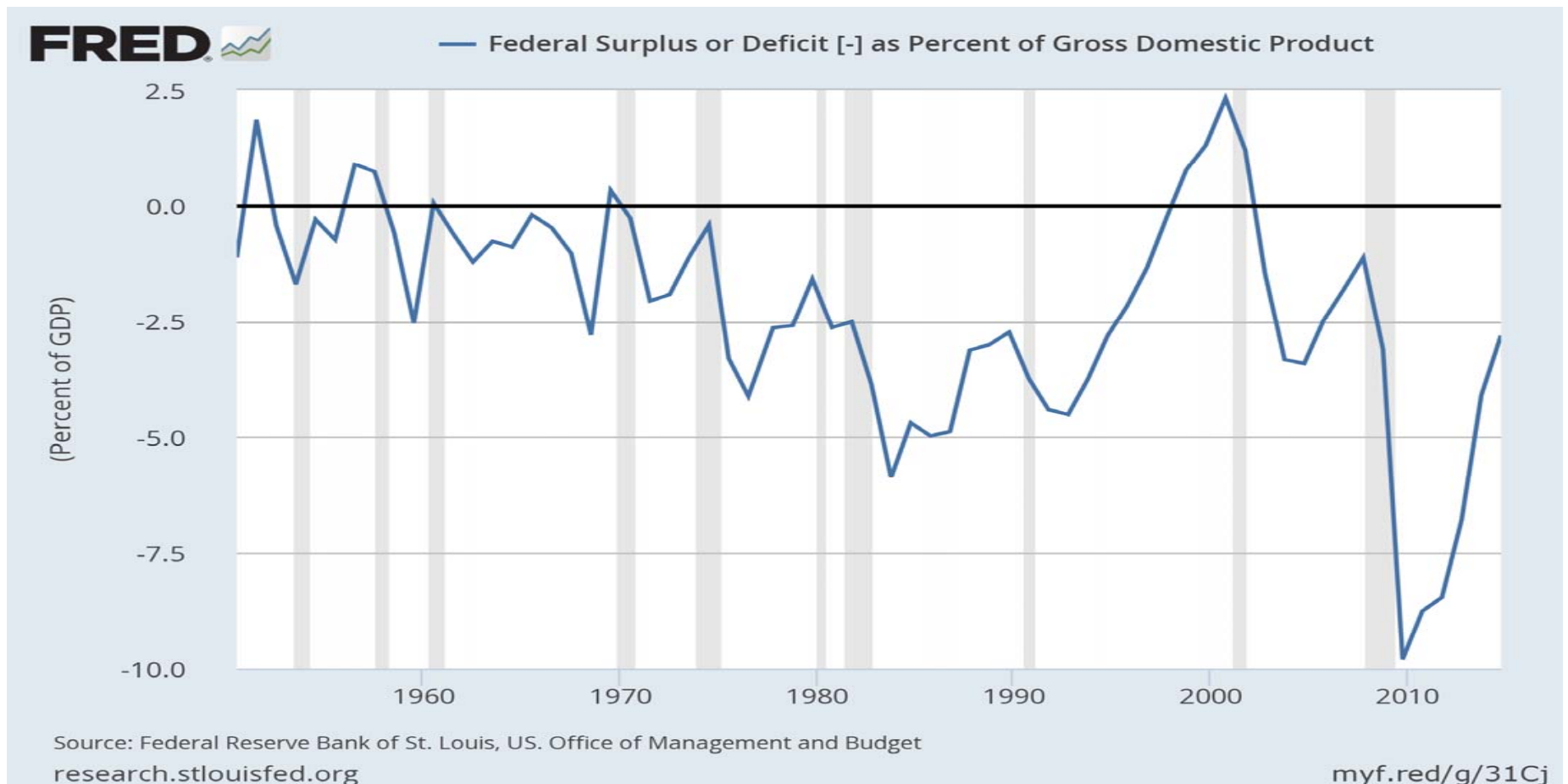
C. Money growth and inflation: a positive relationship



D. The central bank (ex., Federal Reserve System, European Central Bank, and Bank of Japan) is the organization responsible for conduct of a nation's monetary policy.

E. Fiscal policy and monetary policy

1. A budget deficit arises when government expenditures exceed tax revenue.



2. Higher budget deficits might result in higher money growth, higher inflation, and higher interest rates.

Why Study Banking?

A. Structure of the financial system

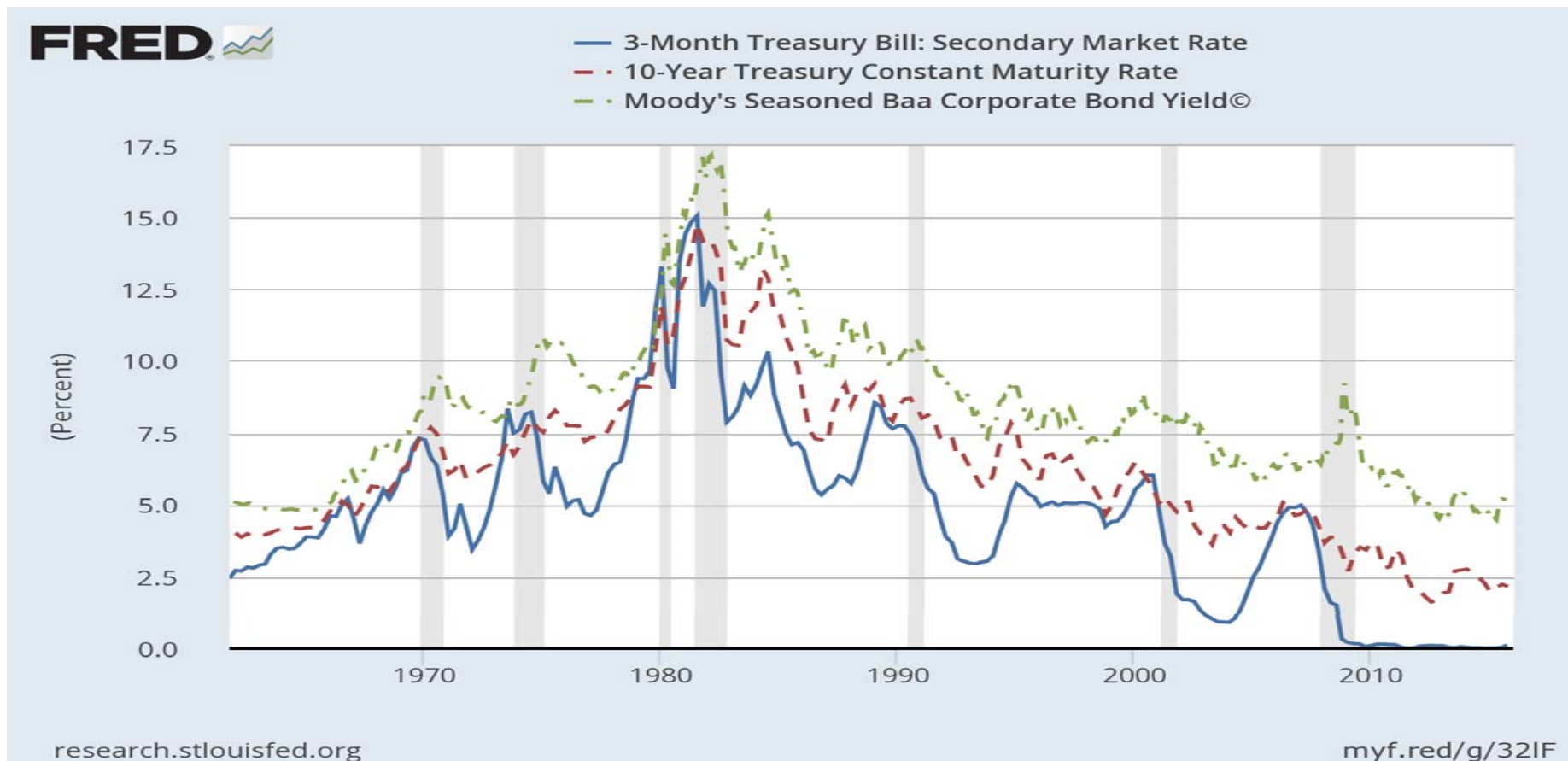
1. Financial system is complex and comprises many different financial institutions that are heavily regulated by the government.
2. Financial intermediators borrow from savers and then lend those funds to others who need them.
 - a. Banks are financial institutions that accept deposits and make loans.
 - b. Insurance companies, mutual funds, finance companies, pension funds, and investment banks are other types of financial intermediaries.

3. Financial innovation is the development of new financial products and services.
 - a. It can make the financial system more efficient.
 - b. E-finance is the ability to deliver financial services electronically.
4. Financial Crises are major disruptions in financial markets that are characterized by sharp declines in asset prices and the failure of many financial and nonfinancial firms.

Why Study Financial Markets?

A. Bond market

1. A bond is debt security that promises to make periodic payments for a specified period of time.
2. An interest rate is the cost of borrowing funds.



B. Stock market

1. A common stock represents a share of ownership in a corporation. A share of stock is a claim on the earnings and assets of a corporation.
2. Corporations can raise funds by issuing stock.

