Why Study Money, Banking, and Financial Markets?
ECON 4673
Dr. Keen

Answers

1. *What are the two basic activities of banks?*

   Banks accept deposits and make loans.

2. *Besides banks, what are the other important financial intermediaries in the economy?*

   Insurance companies, mutual funds, finance companies, pension funds, and investment banks.

3. *When interest rates decrease, how might businesses and consumers change their economic behavior?*

   Businesses would increase investment spending because the cost of financing this spending is now lower and some consumers would be more likely to purchase a house or a car because the cost of financing their purchase is lower. Other consumers, however, would reduce their consumption because the lower interest rate on their savings decreases their income.

4. *If history repeats itself and the money growth rate falls, how would we expect output and the inflation rate to respond? What about the interest rate? Is it different before and after 1980?*

   The data suggest that output and the inflation rate would all decline. Prior to 1980, the interest rate would usually decline after a decrease in the money growth rate, but after 1980, there is no clear relationship between money growth and the interest rate.

5. *What is the difference between a bond and a stock?*

   A bond is debt security that promises to make periodic payments for a specified period of time. A stock represents a share of ownership in a corporation that entitles the owner to a claim on the earnings of that corporation.