

Economics 4905: Lecture 6
Some Topics in Banking, Central Banking, and
Finance

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Reminder: We have posted Problem Set 1, which is due on Monday, September 17.

Absence of Money Illusion:

- ▶ Let P^m be an equilibrium price of money associated with the fiscal policy τ . If instead the fiscal policy is $\lambda\tau$ where the scalar lambda is $0 < \lambda \leq 1$, then P^m/λ is *an* equilibrium price of money.

The Quantity Theory of Money:

- ▶ Let P^m be **the** equilibrium price of money associated with the fiscal policy τ . Then, P^m/λ is **the** equilibrium price of money associated with $\lambda\tau$.
- ▶ Our models are consistent with AMI, but they are not consistent with QTM.

Banking History

- ▶ The gold-smith
- ▶ Usury
- ▶ Florence and Northern Italy
- ▶ Genoa
- ▶ Venice
- ▶ Bruges
- ▶ Hanse
- ▶ Bank of England
- ▶ First Bank of the United States
- ▶ Alexander Hamilton and Thomas Jefferson
- ▶ Revolutionary War Debt
- ▶ French and Cayugas
- ▶ Cayugas and the Revolution

Four English Groups in America

- ▶ Puritans. New England from East Anglia.
- ▶ Quakers. Delaware Valley from Wales and the mid-lands
- ▶ Southern Gentry. *nth* sons and distressed sons of the aristocracy.
- ▶ Back country. From the borders.

Also

- ▶ New Amsterdam
- ▶ New Netherlands

Banking History

- ▶ Andrew Jackson and the collapse of the central bank
- ▶ Antipathy to cities and finance by planters and backwoodsmen.
 - ▶ Main Street versus Wall Street
- ▶ English Civil War, the American Revolution, the American Civil War

The Federal Reserve

- ▶ **Board** of Governors
- ▶ Regional Banks
- ▶ Historical primacy of the NY Fed
- ▶ Open Market Committee (FOMC)

- ▶ Fiscal policy and the Deficits (Surplus)
- ▶ Debt
- ▶ Monetary Policy: The composition of the public debt
- ▶ Interest-bearing
- ▶ Non-interest-bearing
- ▶ QE
- ▶ Open-market operations
- ▶ Commercial banking, depository institutions
- ▶ Shadow banking

Banking Instruments:

- ▶ Demand deposits
- ▶ Time deposits
- ▶ Secured loans
 - ▶ Mortgages
- ▶ Unsecured loans
 - ▶ Personal
 - ▶ Business
- ▶ Line of Credit
- ▶ Commercial Paper
- ▶ Financial intermediation
- ▶ Dis-intermediation
- ▶ Bank runs

Finance

- ▶ Miracle of compound interest
 - ▶ Rule of 70
- ▶ Corporate equity (common stocks)
- ▶ Corporate bonds (debt)
- ▶ Preferred stocks (debt)
- ▶ Leverage (or gearing)
 - ▶ $\text{Debt} \div (\text{equity} + \text{debt})$
- ▶ Limited liability
- ▶ Corporate income tax
 - ▶ Double taxation of common stocks
 - ▶ Interest deductible
 - ▶ Dividends not deductible

Reading List

- ▶ 4 papers on banking and bank runs from reading
- ▶ Diamond-Dybvig classic
- ▶ Ennis-Keister survey
- ▶ Peck-Shell: 2 papers
 - ▶ Combining "sunspots" with risk of panic-based runs
 - ▶ Glass-Steagall banking
- ▶ Shell-Zhang: 4 papers
 - ▶ Bank runs, mechanism design, and game theory