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周凯 译注

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释版

货币金融学

MONEY, BANKING AND FINANCIAL MARKETS

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第3版

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AND

3E FINANCIAL MARKETS

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〔美〕Stephen G. Cecchetti Kermit L. Schoenholtz 著/周凯 译注



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出版者序言

作为一家致力于出版和传承经典、与国际接轨的大学出版社,北京大学出版社历来重视国际经典教材,尤其是经管类经典教材的引进和出版。自2003年起,我们与圣智、培生、麦格劳-希尔、约翰-威利等国际著名教育出版机构合作,精选并引进了一大批经济管理类的国际优秀教材。其中,很多图书已经改版多次,得到了广大读者的认可和好评,成为国内市面上的经典。例如,我们引进的世界上最流行的经济学教科书——曼昆的《经济学原理》,已经成为国内最受欢迎、使用面最广的经济学经典教材。

呈现在您面前的这套“引进版精选教材”,是主要面向国内经济管理类各专业本科生、研究生的教材系列。经过多年的沉淀和累积、吐故和纳新,本丛书在各方面正逐步趋于完善:在学科范围上,扩展为“经济学精选教材”、“金融学精选教材”、“国际商务精选教材”、“管理学精选教材”、“会计学精选教材”、“营销学精选教材”、“人力资源管理精选教材”七个子系列;在课程类型上,基本涵盖了经管类各专业的主修课程,并延伸到不少国内缺乏教材的前沿和分支领域;即便针对同一门课程,也有多本教材入选,或难易程度不同,或理论和实践各有侧重,从而为师生提供了更多的选择。同时,我们在出版形式上也进行了一些探索和创新。例如,为了满足国内双语教学的需要,我们改变了影印版图书之前的单纯影印形式,而是在此基础上,由资深授课教师根据该课程的重点,添加重要术语和重要结论的中文注释,使之成为双语注释版。此次,我们更新了丛书的封面和开本,将其以全新的面貌呈现给广大读者。希望这些内容和形式上的改进,能够为教师授课和学生学习提供便利。

在本丛书的出版过程中,我们得到了国际教育出版机构同行们在版权方面的协助和教辅材料方面的支持。国内诸多著名高校的专家学者、一线教师,更是在繁重的教学和科研任务之余,为我们承担了图书的推荐和评审工作;正是每一位评审者的国

际化视野、专业眼光和奉献精神,才使得本丛书聚木成林,积沙成滩,汇流成海。此外,来自广大读者的反馈既是对我们莫大的肯定和鼓舞,也总能让我们找到提升的空间。本丛书凝聚了上述各方的心血和智慧,在此,谨对他们的热忱帮助和卓越贡献深表谢意!

“千淘万漉虽辛苦,吹尽狂沙始到金。”在图书市场竞争日趋激烈的今天,北京大学出版社始终秉承“教材优先,学术为本”的宗旨,把精品教材的建设作为一项长期的事业。尽管其中会有探索,有坚持,有舍弃,但我们深信,经典必将长远传承,并历久弥新。我们的事业也需要您的热情参与!在此,诚邀各位专家学者和一线教师为我们推荐优秀的经济管理图书(em@pup.cn),并期待来自广大读者的批评和建议。您的需要始终是我们为之努力的目标方向,您的支持是激励我们不断前行的动力源泉!让我们共同引进经典,传播智慧,为提升中国经济管理教育的国际化水平做出贡献!

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关于本书

适用对象

本书适合作为本科生的货币银行学、金融学、金融市场学等课程的教材,也可作为希望了解金融学知识的读者的自学用书。

内容简介

这是一本最新的货币银行学教材。本书紧密结合美国和其他国家的经济现实,以金融学“五大核心原则”为主线,深入浅出地介绍了货币银行学和金融市场的基本知识和运行规律,对货币政策的设计实施以及货币经济学的最新发展也有全面深入的论述。

本书的特点在于重点介绍金融体系的基本运作规律,而不是着重分析其现行结构和规则,这一方法有助于学生理解不断变化的金融体系。

主要特色

- 以金融学“五大核心原则”贯穿始终。这些核心原则为读者理解货币与银行的过去、现在和未来提供了一个框架。
- 较早地引入风险的概念。这一概念对于理解金融体系如何运作极为关键。
- 侧重对金融工具的分析。对于初学货币银行学课程的学生来说,这样可以避免混淆。
- 同时介绍联邦储备银行和欧洲中央银行,帮助学生从全球角度来学习中央银行相关知识。
- 介绍现代货币经济学。与传统的货币理论研究方法相比,更加简单、现代,相关性更强。
- 采用一体化的全球视角。本书通篇都结合国际问题,以反映全球金融体系一体化的现实。

本版更新

- 引入了很多新话题(如流动性危机与去杠杆化、影子银行、系统性风险、大而不能倒、宏观审慎监管等),以全面反映 2007—2009 年金融危机引出的问题及其产生的影响。
- 反映了美联储的变化。突出了在应对金融危机过程中非传统货币政策工具的使用、危机期间货币政策传导机制的破坏,并反映了危机之后美联储在独立性方面的挑战。
- 更新了全书约 40 个“新闻摘录”、“概念应用”、“交易工具箱”、“金融危机教训”等专栏;完善了章后习题;更新了全书中所有的图表数据。

教辅资源

- 教师指导手册
- 测试题库
- 教学 PPT

Dedication

To my father, Giovanni Cecchetti, who argued tirelessly that financial markets are not efficient; and to my grandfather Albert Schwabacher, who patiently explained why inflation is destructive.

Stephen G. Cecchetti

To my parents, Evelyn and Harold Schoenholtz, and my wife, Elvira Pratsch, who continue to teach me what is true, good, and beautiful.

Kermit L. Schoenholtz

About the Authors



Stephen G. Cecchetti is the Economic Adviser and Head of the Monetary and Economic Department at the Bank for International Settlements in Basel, Switzerland. Before joining the BIS in 2008, he was the Barbara and Richard M. Rosenberg Professor of Global Finance at the Brandeis International Business School. Previously, Dr. Cecchetti taught at the New York University Stern School of Business and, for approximately 15 years, was a member of the Department of Economics at The Ohio State University.

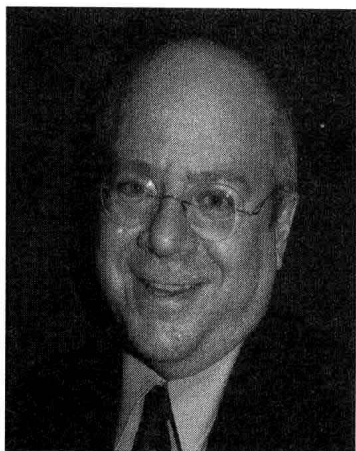
In addition to his other appointments, Cecchetti served as Executive Vice President and Director of Research, Federal Reserve Bank of New York (1997–1999); Editor, *Journal of Money, Credit, and Banking* (1992–2001); Research Associate, National Bureau of Economic Research (1989–present); and Research Fellow, Centre for Economic Policy Research (2008–present), among others.

He has consulted for various central banks around the world, including the European Central Bank, the Bank of England, the Central Bank of Bolivia, the Bank of Israel, and the Reserve Bank of Australia.

Cecchetti's research interests include inflation and price measurement, monetary policy, macroeconomic theory, economics of the Great Depression, and financial economics. His initial work concentrated on the theoretical basis and empirical plausibility of new Keynesian models of the business cycle that are based on nominal rigidities. More recently, he has developed new measures of core inflation and examined how monetary policy can be used to control aggregate price movements.

He has published more than 75 articles in academic and policy journals and since 2000 has been a regular contributor to the *Financial Times*. See www.brandeis.edu/global/news_cecchetti_articles.php for an archive of his recent newspaper columns.

Cecchetti received an SB in Economics from the Massachusetts Institute of Technology in 1977 and a PhD in Economics from the University of California at Berkeley in 1982.



Kermit L. Schoenholtz is an adjunct professor in the Department of Economics of New York University's Leonard N. Stern School of Business. Schoenholtz was Citigroup's global chief economist from 1997 until 2005. After a year's leave, he served until 2008 as senior advisor and managing director in the Economic and Market Analysis (EMA) department at Citigroup.

Schoenholtz joined Salomon Brothers in 1986, working in their New York, Tokyo, and London offices. In 1997, he became chief economist at Salomon, after which he became chief economist at Salomon Smith Barney and later at Citigroup.

Schoenholtz has published extensively for the professional investment community about financial, economic, and policy developments; more recently, he has contributed to policy-focused scholarly research in economics. He has served as a member of the Executive Committee of the London-based Centre for Economic Policy Research and is a panel member of the U.S. Monetary Policy Forum.

From 1983 to 1985, Schoenholtz was a Visiting Scholar at the Bank of Japan's Institute for Monetary and Economic Studies. He received an MPhil in economics from Yale University in 1982 and an AB from Brown University in 1977.

Preface

The worldwide financial crisis of 2007–2009 was the most severe since that of the 1930s, and the recession it triggered was by far the most widespread and costly since the Great Depression. Around the world, it cost tens of millions of workers their jobs. In the United States, millions of families lost their homes and their wealth. To stem the crisis, governments and central banks took aggressive and, in many ways, unprecedented actions.

As a result, change will be sweeping through the world of banking and financial markets for years to come. Some of the ways in which people borrowed—to buy a home or a car or to pay for college—have become difficult or unavailable. Some of the largest financial firms have failed, while others—even larger—have risen. Some financial markets have disappeared, but new institutions are surfacing that aim to make markets less vulnerable in the future. And governments everywhere are working on new rules to make future crises both less likely and less damaging.

Just as the crisis is transforming the financial system and government policy, it is transforming the study of money and banking. Some old questions are surfacing with new intensity: Why do such costly crises occur? How can they be prevented? How can we limit their impact? How will these changes affect the financial opportunities and risks that people face?

Against this background, students who memorize the operational details of today's financial system are investing in a short-lived asset. Our purpose in writing this book is to focus on the basic functions served by the financial system while deemphasizing its current structure and rules. Learning the economic rationale behind current financial tools, rules, and structures is much more valuable than concentrating on the tools, rules, and structures themselves. It is an approach designed to give students the lifelong ability to understand and evaluate whatever financial innovations and developments they may one day confront.

The Core Principles Approach

Toward that end, the entire content of this book is based on five *core principles*. Knowledge of these principles is the basis for learning what the financial system does, how it is organized, and how it is linked to the real economy.

1. Time has value.
2. Risk requires compensation.
3. Information is the basis for decisions.
4. Markets determine prices and allocate resources.
5. Stability improves welfare.

These five core principles serve as a framework through which to view the history, current status, and future development of money and banking. They are discussed in detail in Chapter 1; throughout the rest of the text, marginal icons remind students of the principles that underlie particular discussions.

Focusing on core principles has created a book that is both concise and logically organized. This approach does require some adjustments to the traditional methodology used to teach money and banking, but for the most part they are changes in emphasis

only. That said, some of these changes have greatly improved both the ease of teaching and the value students draw from the course. Among them are the emphasis on risk and on the lessons from the financial crisis; use of the term *financial instrument*; parallel presentation of the Federal Reserve and the European Central Bank; a streamlined, updated section on monetary economics; and the adoption of an integrated global perspective.

Innovations in This Text

In addition to the focus on core principles, this book introduces a series of innovations designed to foster coherence and relevance in the study of money and banking, in both today's financial world and tomorrow's.

Impact of the Crisis

The effects of the financial crisis of 2007–2009 are transforming money, banking, and financial markets. Accordingly, from beginning to end, the book integrates the issues raised by the crisis and by the response of policymakers.

The concept of a liquidity crisis surfaces in Chapter 2, and the risks associated with leverage and the rise of shadow banking are introduced in Chapter 3. Issues specific to the 2007–2009 crisis—including securitization, rating agencies, subprime mortgages, over-the-counter trading, and complex financial instruments like credit-default swaps—are included in the appropriate intermediate chapters of the text. More broadly, the sources of threats to the financial system as a whole are identified throughout the book, and there is a focused discussion on regulatory initiatives to limit such systemic threats. Finally, we present—in a logical and organized manner—the unconventional monetary policy tools that became so prominent in the policy response to the crisis.

Early Introduction of Risk

It is impossible to appreciate how the financial system works without understanding risk. In the modern financial world, virtually all transactions transfer some degree of risk between two or more parties. These risk trades can be extremely beneficial, as they are in the case of insurance markets. But there is still potential for disaster. In 2008, risk-trading activity at some of the world's largest financial firms threatened the stability of the international financial system.

Even though risk is absolutely central to an understanding of the financial system, most money and banking books give very little space to the topic. In contrast, this book devotes an entire chapter to defining and measuring risk. Chapter 5 introduces the concept of a risk premium as compensation for risk and shows how diversification can reduce risk. Because risk is central to explaining the valuation of financial instruments, the role of financial intermediaries, and the job of central bankers, the book returns to this concept throughout the chapters.

Emphasis on Financial Instruments

Financial instruments are introduced early in the book, where they are defined based on their economic function. This perspective leads naturally to a discussion of the

uses of various instruments and the determinants of their value. Bonds, stocks, and derivatives all fit neatly into this framework, so they are all discussed together.

This approach solves one of the problems with existing texts, use of the term *financial market* to refer to bonds, interest rates, and foreign exchange. In its conventional microeconomic sense, the term *market* signifies a place where trade occurs, not the instruments that are traded. This book follows standard usage of the term *market* to mean a place for trade. It uses the term *financial instruments* to describe virtually all financial arrangements, including loans, bonds, stocks, futures, options, and insurance contracts. Doing so clears up the confusion that can arise when students arrive in a money and banking class fresh from a course in the principles of economics.

Parallel Presentation of the Federal Reserve and the European Central Bank

To foster a deeper understanding of central banking and monetary policy, the presentation of this material begins with a discussion of the central bank's role and objectives. Descriptions of the Federal Reserve and the European Central Bank follow. By starting on a theoretical plane, students gain the tools they need to understand how all central banks work. This avoids focusing on institutional details that may quickly become obsolete. Armed with a basic understanding of what central banks do and how they do it, students will be prepared to grasp the meaning of future changes in institutional structure.

Another important innovation is the parallel discussion of the two most important central banks in the world, the Federal Reserve and the European Central Bank (ECB). Students of the 21st century are ill-served by books that focus entirely on the U.S. financial system. They need a global perspective on central banking, the starting point for which is a detailed knowledge of the ECB.

Modern Treatment of Monetary Economics

The discussion of central banking is followed by a simple framework for understanding the impact of monetary policy on the real economy. Modern central bankers think and talk about changing the interest rate when inflation and output deviate from their target objectives. Yet traditional treatments of monetary economics employ aggregate demand and aggregate supply diagrams, which relate output to the price level, and discuss inflation in terms of shifts in the AD and AS curves. The resulting development is lengthy and difficult. Because this book skips the ISLM framework, its presentation of monetary economics is several chapters shorter. Only those topics that are most important in a monetary economics course are covered: long-run money growth and inflation and short-run monetary policy and business cycles. This streamlined treatment of monetary theory is not only concise, but more modern and more relevant than the traditional approach. It helps students to see monetary policy changes as part of a strategy, rather than a one-off event, and it gives them a complete understanding of business-cycle fluctuations.

Integrated Global Perspective

Technological advances have dramatically reduced the importance of a bank's physical location, producing a truly global financial system. Twenty years ago money and

banking books could afford to focus primarily on the U.S. financial system, relegating international topics to a separate chapter that could be considered optional. But in today's financial world, even a huge country like the United States cannot be treated in isolation. The global financial system is truly an integrated one, rendering separate discussion of a single country's institutions, markets, or policies impossible. This book incorporates the discussion of international issues throughout the text, emphasizing when national borders are important to bankers and when they are not.

Organization

This book is organized to help students understand both the financial system and its economic effects on their lives. That means surveying a broad series of topics, including what money is and how it is used; what a financial instrument is and how it is valued; what a financial market is and how it works; what a financial institution is and why we need it; and what a central bank is and how it operates. More important, it means showing students how to apply the five core principles of money and banking to the evolving financial and economic arrangements that they inevitably will confront during their lifetimes.

Part I: Money and the Financial System. Chapter 1 introduces the core principles of money and banking, which serve as touchstones throughout the book. Chapter 2 examines money both in theory and in practice. Chapter 3 follows with a bird's-eye view of financial instruments, financial markets, and financial institutions. (Instructors who prefer to discuss the financial system first can cover Chapters 2 and 3 in reverse order.)

Part II: Interest Rates, Financial Instruments, and Financial Markets. Part II contains a detailed description of financial instruments and the financial theory required to understand them. It begins with an explanation of present value and risk, followed by specific discussions of bonds, stocks, derivatives, and foreign exchange. Students benefit from concrete examples of these concepts. In Chapter 7 (The Risk and Term Structure of Interest Rates), for example, students learn how the information contained in the risk and term structure of interest rates can be useful in forecasting. In Chapter 8 (Stocks, Stock Markets, and Market Efficiency), they learn about stock bubbles and how those anomalies influence the economy. And in Chapter 10 (Foreign Exchange), they study the Big Mac index to understand the concept of purchasing power parity. Throughout this section, two ideas are emphasized: that financial instruments transfer resources from savers to investors, and that in doing so, they transfer risk to those best equipped to bear it.

Part III: Financial Institutions. In the next section, the focus shifts to financial institutions. Chapter 11 introduces the economic theory that is the basis for our understanding of the role of financial intermediaries. Through a series of examples, students see the problems created by asymmetric information as well as how financial intermediaries can mitigate those problems. The remaining chapters in Part III put theory into practice. Chapter 12 presents a detailed discussion of banking, the bank balance sheet, and the risks that banks must manage. Chapter 13 provides a

brief overview of the financial industry's structure, and Chapter 14 explains financial regulation, including a discussion of regulation to limit threats to the financial system as a whole.

Part IV: Central Banks, Monetary Policy, and Financial Stability. Chapters 15 through 19 survey what central banks do and how they do it. This part of the book begins with a discussion of the role and objectives of central banks, which leads naturally to the principles that guide central bank design. Chapter 16 applies those principles to the Federal Reserve and the European Central Bank. Chapter 17 presents the central bank balance sheet, the process of multiple deposit creation, and the money supply. Chapters 18 and 19 cover operational policy, based on control of both the interest rate and the exchange rate. Chapter 18 also introduces the monetary transmission mechanism and presents a variety of unconventional monetary policy tools that gained prominence during the financial crisis of 2007–2009. The goal of Part IV is to give students the knowledge they will need to cope with the inevitable changes that will occur in central bank structure.

Part V: Modern Monetary Economics. The last part of the book covers modern monetary economics. While most books cover this topic in six or more chapters, this one does it in four. This streamlined approach concentrates on what is important, presenting only the essential lessons that students truly need. Chapter 20 sets the stage by exploring the relationship between inflation and money growth. Starting with inflation keeps the presentation simple and powerful, and emphasizes the way monetary policymakers think about what they do. A discussion of aggregate demand, aggregate supply, and the determinants of inflation and output follows. Chapter 21 presents a complete macroeconomic model with a dynamic aggregate demand curve that integrates monetary policy directly into the presentation, along with short- and long-run aggregate supply curves. In Chapter 22 the model is used to help understand the sources of business cycles, as well as a number of important applications that face monetary policymakers in the world today. Each application stands on its own and the applications are ordered in increasing difficulty to allow maximum flexibility in their use.

For those instructors who have the time, we recommend closing the course with a rereading of the first chapter and a review of the core principles. What is the future likely to hold for the six parts of the financial system: money, financial instruments, financial markets, financial institutions, regulatory agencies, and central banks? How do students envision each of these parts of the system 20 or even 50 years from now?

Learning Tools

In a sense, this book is a guide to the principles students will need to critically evaluate and use what they read in the financial press. Reading the newspaper and applying the information it contains require some basic knowledge. Supplying that knowledge is the purpose of the five types of inserts that complement the chapters, providing a break from the more technical material in the body of the text:

Your Financial World inserts provide students with practical information that is based on lessons covered in the chapter. Most chapters contain two of these boxes, each of which examines a personal finance problem that everyone faces. These boxes

show students that the concepts taught in the money and banking course are relevant to their everyday lives. Among the topics covered are the importance of saving for retirement, the risk in taking on a variable-rate mortgage, the desirability of owning stocks, and techniques for getting the most out of the financial news.

Applying the Concept sections show how ideas introduced in the chapter can be applied to the world around us. Most describe historical episodes or examine issues relevant to the public policy debate. Subjects include how debt problems in emerging-market countries can create an increase in the demand for U.S. Treasury debt; why Long-Term Capital Management nearly caused a collapse of the world financial system; and what monetary policymakers learned from the Great Depression of the 1930s. Some chapters contain two of these applications.

Lessons from the Crisis inserts explain concepts or issues in a chapter that were integral to the financial crisis of 2007–2009. Most chapters contain at least one such insert. One goal of these inserts is to provide students a framework for understanding the crisis and how it transformed the world of money, banking, and financial markets. Another goal is to show how the crisis demonstrates the relevance and power of the ideas in the book. The topics range from specific aspects of the crisis such as shadow banks, asset-backed securities, and the evolution of the money supply to broad concepts like liquidity, leverage, securitization, and systemic risk.

In the News boxes present articles drawn from *The New York Times*, *The Wall Street Journal*, *The Financial Times*, *The Economist*, the *Washington Post*, *Los Angeles Times*, *Bloomberg News*, and *BusinessWeek*. These readings show how concepts introduced in the chapter are applied in the financial press. Each article is accompanied by a brief analysis that reinforces key concepts. One In the News box appears in nearly every chapter.

Tools of the Trade boxes teach useful skills, including how to read bond and stock tables, how to read charts, and how to do some simple algebraic calculations. Some provide brief reviews of material from the principles of economics course, such as the relationship between the current account and the capital account in the balance of payments. Most chapters contain one of these boxes.

Finally, the end-of-chapter material is divided into three sections:

Key Terms A listing of all the technical terms introduced and defined in the chapter. The key terms are defined in full in the glossary at the end of the book.

Chapter Lessons A list of the key lessons in the chapter. Other textbooks summarize a small number of points at length. This book summarizes a larger number of points, each of them short, clear, and couched in the form of an outline that matches the chapter headings—a format designed to aid student comprehension and retention.

Problems Each chapter contains at least 18 conceptual and analytical problems of varying levels of difficulty. These problems are designed to reinforce the lessons in the chapter.

Organizational Alternatives

While this book greatly streamlines the traditional approach to money and banking, it remains flexible enough to be used in a broad variety of courses; 16 to 19 of the book's 23 chapters can be assigned in the following courses:

General Money and Banking Course. Chapters 1–8, 11, 12, 15, 16, the first section of 17 (through page 433), 18, and 20–22

This course covers the primary material needed to appreciate the connections between the financial system and the economy.

General Money and Banking Course with International Emphasis. Chapters 1–8, 10–12, 15–19, and 20

This alternative to the general money and banking course substitutes chapters on foreign exchange and exchange-rate policy for the macroeconomic model included in courses with less international emphasis.

Financial Markets and Institutions. Chapters 1–9, 11–18

The traditional financial markets and institutions course covers money, financial instruments and markets, financial institutions, and central banking. The focus is on Parts II and III of the book.

Monetary Economics and Monetary Policy. Chapters 1–7, 10–12, 15–23

A course called monetary economics and monetary policy uses the material in Parts II and III as a foundation for understanding the material in Parts IV and V. A half-semester course for students with a background in financial instruments and institutions might cover only Chapters 1–3 and 15–23.

What's New in the Third Edition?

Many things have happened since the last edition. For that reason, all of the figures and data have been updated to reflect the most recent available information. In addition, Stephen Cecchetti and his new co-author, Kermit Schoenholtz, have made numerous, vital changes to enhance the Third Edition of *Money, Banking, and Financial Markets* as outlined here.

New Topics in the Integrated Global Perspective

The Third Edition has been revised extensively in light of the global financial crisis, which began shortly after the Second Edition went to press. Throughout the Third Edition, the authors have integrated key developments and relevant insights from the crisis. New topics introduced or discussed in much greater detail include:

- Crises of liquidity and deleveraging
- Shadow banking
- Systemic risk
- Complex financial instruments
- Centralized counterparties
- Too big to fail
- Macro-prudential regulation
- Paying interest on reserves

- The zero bound
- Unconventional monetary policy tools
- Impact of the crisis on Fed independence

The most extensive changes are in Chapter 14, which now includes a treatment of systemic regulation, and in Chapter 18, which has been updated with coverage of the unconventional monetary policy approaches adopted during the financial crisis.

Improved End-of-Chapter Problems

Many of the End-of-Chapter problem sets have been updated to highlight lessons from the financial crisis of 2007–2009.

Changes at the Federal Reserve

The discussion of the Federal Reserve now highlights the use of unconventional policy tools in addressing the financial crisis (Chapter 18) and the impairment of the monetary transmission process during the crisis (Chapter 23). It also reflects the challenge to Fed independence in the aftermath of the crisis (Chapter 15).

Updated Coverage of Current Events

Through new and updated Learning Tools inserts, the authors have captured developments since the Second Edition in the key areas of the financial crisis and monetary policy. Here is a complete list of the new features:

Lessons from the Crisis

Market Liquidity, Funding Liquidity, and Making Markets (Chapter 2)
 Leverage (Chapter 3)
 Interbank Lending (Chapter 3)
 Shadow Banks (Chapter 3)
 Risk Taking and the Search for Yield (Chapter 4)
 Systemic Risk (Chapter 5)
 Rating Agencies (Chapter 7)
 Asset-Backed Commercial Paper (Chapter 7)
 Subprime Mortgages (Chapter 7)
 Centralized Counterparties and Systemic Risk (Chapter 9)
 Currency Risk and Rollover Risk (Chapter 10)
 Information Asymmetry and Securitization (Chapter 11)
 Insufficient Bank Capital (Chapter 12)
 Should the Lender of Last Resort Also Supervise? (Chapter 14)
 Threats to Fed Independence (Chapter 15)
 Government Funding in the Euro Area (Chapter 16)
 The Impact on Money Supply (Chapter 17)

In the News

Dad, Can You Text Me \$200? (Chapter 2)
 Lessons of the Financial Crisis—One Year Later (Chapter 3)
 How to Achieve Effective Portfolio Diversification (Chapter 5)
 Revival in “Private-Label” Mortgage Securities? (Chapter 6)
 Banks Decline Yield Curve Invitation to Party On (Chapter 7)

Efficient Market Theory and the Crisis (Chapter 8)
 AIG Still Faces Billions in Credit Losses (Chapter 9)
 U.S. in Standoff with Beijing over Chinese Currency (Chapter 10)
 In a Tight Market, Borrowers Turn to Peers (Chapter 11)
 Rogue Flight: Société Générale's Kerviel Tags Leeson (Chapter 12)
 Fed's Tarullo Says Dividing Banks May Not Curb Too Big to Fail (Chapter 13)
 New Bank Rules Sink Stocks (Chapter 14)
 Beware the Result of Outrage (Chapter 15)
 Fed Adopts De Facto Inflation Target (Chapter 16)
 Fed May Take Chance End to Debt Purchases Won't Hurt Housing (Chapter 18)
 As Budget Deficit Grows, So Do Doubts on Dollar (Chapter 19)
 Independence Day for the Fed (Chapter 21)
 Inflation Worry Limits Fed Flexibility (Chapter 22)
 Bernanke's How-To on Rate Increase Lacks a When (Chapter 23)

Applying the Concept

Securitization (Chapter 6)
 The Madoff Scandal (Chapter 11)
 The Fed's Balance Sheet: Impact of the Crisis (Chapter 17)
 Implications of China's Exchange-Rate Regime (Chapter 19)

Tools of the Trade

Some Unconventional Policy Tools (Chapter 18)

Supplements for Students

Online Learning Center Web Site

The book's Web site, revised by Matthew Alford (Southeastern Louisiana University), www.mhhe.com/cecchetti3e, includes a variety of free content for students, including multiple-choice chapter quizzes, PowerPoint slides, and interactive graphs with related exercises. Instructors may access all the book's major supplements using a special password.

Supplements for Instructors

Instructor's Resources and Solutions Manual

Tori Knight (Carson-Newman College) has collected a broad array of materials for instructors. This manual includes chapter overviews, outlines, and a discussion of how the core principles apply to each chapter. It also addresses concepts students often find difficult, including suggestions for alleviating confusion. Solutions are provided to the end-of-chapter problems by Roisin O'Sullivan (Smith College).

Test Bank

Kenneth Slaysman (York College of Pennsylvania) and Tori Knight have revised the test bank of 2,500 multiple-choice and 600 short-answer and essay questions. The test bank can be used both as a study guide and as a source for exam questions. It has been computerized to allow for both selective and random generation of test questions.