# Money
# Financial Institutions
# and the Economy

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William B. Harrison

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# Preface

## Organization and Intended Audience

After signing the contract to write this textbook, we constructed and distributed to more than a hundred business schools and economics departments a simple questionnaire. Among the questions asked were, What is your present money and banking text? What is its best feature? . . . its worst feature? What is the makeup of your classes? What are the most important features in a successful text?

This text was written with the desires and preferences of 76 respondents in mind. One need cited more frequently than any of the others was for a readable writing style. The survey also indicated that money and banking classes were composed of about equal numbers of finance and economics majors, with smaller proportions of business administration students, and some accounting majors. This distribution is consistent with my own experience, and this text is written for this mix of students.

*Money, Financial Institutions, and the Economy* is a standard one-semester money and banking text. In many schools, money and banking is the only course offered which instructs students in the comprehensive relationships between financial markets, instruments, and firms. Therefore, this text emphasizes these interrelationships. Theory is not emphasized except in discussing the connection between money and economic activity.

Organization is an outstanding feature of this text. While most money and banking texts proceed quickly to commercial bank deposit expansion and Federal Reserve functions, roughly the first third of this text is devoted to the environment in which banks operate. Such early and extensive treatment of the entire financial sector of the economy is crucial in light of the blurring of distinctions between money and other financial assets, and between banks and other financial institutions. The postwar financial structure is vanishing. Texts which acknowledge these changes often append discussion of them to the old money and banking framework. This is inadequate and inaccurate. Recent developments in financial markets and institutions are of far-reaching significance and must be integrated into any valid money and banking discussion.

In addition to thorough coverage of financial markets, instruments and institutions, this book includes other material frequently omitted from texts. Among these topics are: the deregulation and restructuring of the savings and loan industry (Chapter 2); framework for analyzing flow of funds (Chapter 6); the U.S. payments system (Chapter 8); techniques for evaluating bank performance (Chapter 10); new methods of bank balance sheet management (Chapter 11); new insights on the day-to-day work of managing the Federal Open Market account (Chapter 14); a simplification and improvement on existing pedagogy of the IS-LM model (Chapter 17); and a treatment of the obstacles to achieving economic goals with monetary policy and fiscal policy (Chapter 20). In addition, there are many other topics that are new simply because they represent recent changes in the field. These include electronic funds transfer systems, interstate banking modes, asset-based lending, innovations in financial markets, and foreign debt service problems of U.S. banks, for example.

While the topical sequence may vary with each instructor's syllabus, the book's five parts correspond with the major areas of most money and banking instruction. Part One, Money and the Financial Structure; Part II, Commercial Banking; Part III, Central Banking; Part IV, Monetary Theory; and Part V, Goals of Monetary Policy. This organization reflects the way I generally teach a one-semester course in money and banking. For those who wish to begin with the structure and functions of banks, Chapter 1 may be followed with Chapters 7 through 11.

Emphasis on financial markets and institutions may be cut by skipping flow of funds instruction in Chapter 6, paring the section of Chapter 2 dealing with problems of the savings and loan industry, and eliminating discussion of the issue and exchange characteristics of money instruments in Chapter 5.

With only these chapters on Federal Reserve purposes, organization and instruments of monetary policy, there is not much central banking material that can be eliminated; however, some instructors may want to omit the new material on operation of the New York Fed's Trading Desk.

Because this is likely to be a first-time experience for many students in modeling the money-economy relationship, three chapters are absolutely necessary to cover the subject: Chapter 15, Evolution of Monetary Theory; Chapter 16, A Supply-Side Classical Model; and Chapter 17, A Demand-Oriented, Short-Run, Nominal Income Determination Model. Chapter 18, which begins to synthesize aggregate supply and aggregate demand, may be omitted if the instructor has an alternative approach which is more suitable for his or her non-economics students. Based on the experiences of the 1970s and 1980s, treatment of inflation and unemployment in Chapter 19 is standard fare. Time spent on Chapter 20 may be reduced by eliminating the latter part which deals with the history of policy implementation, though my students seem to enjoy a respite from theory at this point. I personally feel that instruction in the international monetary system is vitally important as the economies of all nations become inescapably interrelated.

*Bill Harrison*
Department of Economics
Virginia Commonwealth University

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**B. H.**

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