

THE NEW  
PALGRAVE  
DICTIONARY OF  
MONEY  
& FINANCE

THE NEW  
PALGRAVE  
DICTIONARY OF  
MONEY & FINANCE

EDITED BY  
PETER NEWMAN · MURRAY MILGATE  
JOHN EATWELL

2  

---

F-M

M

THE MACMILLAN PRESS LIMITED, LONDON  
THE STOCKTON PRESS, NEW YORK

© The Macmillan Press Limited, 1992

All reserved reserved.

No part of this publication may be reproduced or transmitted,  
in any form or by any means, without permission.

*The New Palgrave Dictionary of Money and Finance*  
Edited by Peter Newman, Murray Milgate and John Eatwell  
in three volumes, 1992

Published in the United Kingdom by  
THE MACMILLAN PRESS LIMITED, 1992

London and Basingstoke

Associated companies in Auckland, Delhi, Dublin, Gaborone, Hamburg,  
Harare, Hong Kong, Johannesburg, Kuala Lumpur, Lagos, Manzini,  
Melbourne, Mexico City, Nairobi, New York, Singapore, Tokyo.

Published in the United States of America and Canada by  
THE STOCKTON PRESS, 1992  
257 Park Avenue South, New York, NY 10010, USA

The New Palgrave is a trademark of the The Macmillan Press Limited

**Library of Congress Cataloging-in-Publication Data**

A Catalog record for this book  
is available from The Library of Congress  
ISBN 1-56159-041-X

**British Library cataloguing in Publication Data**

The new Palgrave dictionary of money and finance  
I. Newman, Peter K. 1928 – II. Milgate, Murray,  
III. Eatwell, John  
332.03  
ISBN 0-333-52722-4

Typeset by Wearset, Tyne and Wear  
Printed and bound in MEXICO

# LIST OF ENTRIES A–Z

One-line cross-references are shown in *italics*, glossarial entries in roman type, and essays in **bold**.

- absolute priority rule
- absorption approach to the balance of payments
- acceptability, means of payment and media of exchange
- acceptances*
- accepting houses
- accounting and finance
- acquisition and purchase accounting*
- acquisitions
- active portfolio management
- actuarial methods in finance
- adaptive expectations
- adjustable rate mortgages
- adjustment costs*
- adverse selection*
- ageing populations, financial implications of*
- agency
- agency costs
- agio
- agricultural credit in developing countries
- agricultural finance
- agricultural price support schemes
- all-in cost of funds*
- alpha, beta, gamma and delta stocks*
- American banking legislation, recent
- American Depository Receipt
- American financial markets, deregulation of*
- American options*
- American Stock Exchange
- amortization
- Amsterdam Stock Exchange
- animal spirits*
- announcement effects*
- annuities*
- annuity markets
- anomalies*
- arbitrage
- arbitrage, information theft and insider trading
- arbitrage pricing theory
- ARCH models
- Argentina: monetary and financial system
- ARMA model*
- Arrow–Debreu model of general equilibrium
- Arrow–Pratt measure of risk aversion*
- art and artefacts*
- Asian dollar market
- asset allocation*
- asset and liability management
- asset price bubbles
- asset pricing models, empirical testing of*
- asset stripping
- assignats
- assurance*
- asymmetric information
- at the money*
- auctioneer
- auction rings
- auctions
- Australia: monetary and financial system
- Austria: monetary and financial system
- automated clearing house
- automated payments systems
- automated trade execution
- autoregressive and moving average time series processes
- backwardation
- Baker and Brady plans
- Balanced Budget Amendment
- balance of payments
- balance sheets of financial intermediaries
- Baltic Mercantile and Shipping Exchange
- bancor
- bank capital*
- Bank Charter Act of 1844
- bank charters
- bank credit and information in capital markets
- bank equity*
- bank failure
- Bank for International Settlements
- bank holding companies
- banking acquisitions
- Banking Act of 1933*
- Banking Act of 1935
- banking crises
- banking deregulation and monetary policy
- banking firm
- banking holidays*
- banking in socialist countries*
- banking output
- banking panics
- Banking School, Currency School, Free Banking School
- banking structure and competition
- banking supervision
- bank mergers
- Bank of Canada
- Bank of England
- Bank of England's daily money market operations*
- Bank of France*
- Bank of Japan
- Bank rate
- bank regulation*
- bank runs
- bankruptcy*
- bankruptcy and capital structure
- bankruptcy costs*
- bankruptcy liquidation*
- bankruptcy reorganization*
- banks, retail and wholesale
- bank surveillance*
- Banque de France
- bargain hunters*
- bargain size*
- Baring Crisis
- barriers to entry in financial markets
- barter*
- base drift
- base rate*
- basis point
- basis risk*
- Basle Committee on banking supervision
- Bayesian decision theory
- Bayesian inference in time series
- bear markets*
- beggar-thy-neighbour*
- Belgium: monetary and financial system
- Berne Union
- beta*
- betting
- bid–ask spreads
- bidding
- Big Bang
- bilateral clearing (netting)*
- bill of exchange
- bill on London

- bimetallism**  
*Black–Scholes pricing model for options*  
**block trading**  
*Board of Trade Clearing Corporation*  
*boards of directors*  
*bogey portfolio*  
**bond covenants**  
*bond indentures*  
**bond markets**  
**bond ratings**  
**bond refunding**  
**bonds**  
*book entry transfers*  
*borrowers, evaluation of*  
**bottom fisher**  
**bottomry, loan on**  
**bounded rationality**  
*Bourse, Paris*  
*branch banking*  
**brands, accounting for**  
**Brazil: monetary and financial system**  
**break-up value**  
**Bretton Woods System**  
**bridge loan**  
**British banking legislation, recent**  
*broad market*  
**brokerage commissions**  
**brokerage services**  
**bubbles**  
**budgetary policy**  
**budget deficits: problems of measurement**  
**budget projections**  
**building societies**  
**building societies: evolution into banks**  
**bull and bear markets in the United States**  
*bulldog bonds*  
**Bullionist Controversy**  
**Bundesbank**  
**burden of the debt**  
**business cycles**  
*buybacks*  
*buying in*  
*buyouts*  
**callable bonds**  
*call loan rate*  
**call markets**  
**call money market**  
*call options*  
*call risk*  
*Cambridge quantity equation*  
**Canada: monetary and financial system**  
**capital, credit and money markets**  
**capital adequacy**  
**capital asset pricing model**  
**capital–assets ratio**  
**capital budgeting**  
*capital controls*  
*capital export*  
**capital flight**
- capital flows*  
**capital gains and losses**  
**capital gains taxation**  
**capitalization of inflation risk**  
**capital markets**  
**capital markets and capitalism in Britain and continental Europe before 1914**  
*caps*  
**cartels in banking**  
**cash**  
**cash balances**  
**cash flow**  
**cash-in-advance economy**  
**central bank independence**  
**central banking**  
**central banking in developing countries**  
**central banking institutions in the United Kingdom and the United States**  
**CEOs**  
**certainty equivalent**  
**certificates of deposit**  
*chaos*  
**Chapter 7 bankruptcy**  
**Chapter 11 bankruptcy**  
**charitable trusts and nonprofit institutions**  
**chartist analysis**  
**chartists' language**  
**cheap money**  
**cheap talk about monetary policy**  
*check*  
**cheque**  
**Chicago Board of Trade**  
**Chicago Board Options Exchange**  
**Chicago Mercantile Exchange**  
*chief executive officers*  
**China: monetary and financial system**  
*Chinese walls*  
*churning*  
*c.i.f. and f.o.b.*  
**cigarette currencies**  
**circuit-breakers**  
**City of London**  
*classical dichotomy*  
**classical theory of money**  
**clearing banks**  
**clearing house associations**  
**clearing house automated payments system (CHAPS)**  
**clearing house interbank payments system (CHIPS)**  
**clearing houses**  
**clearing houses in futures markets**  
**clearing systems**  
**clearing unions**  
*clientele effect*  
**clipped money**  
**closed-end mutual funds**  
**closure rule**  
**coinage, development of**
- co-insurance**  
**cointegrated economic variables**  
*collared issues*  
*collars*  
**collateral**  
**collateralized mortgage obligation**  
**colonial and state issues of paper currency in North America**  
**commandite system**  
**commercial banking**  
**commercial crises**  
*commercial paper*  
*commitments*  
**commodity agreements**  
*commodity currency*  
**Commodity Exchange, Inc. (Comex)**  
**commodity futures**  
**Commodity Futures Trading Commission**  
**commodity markets**  
**commodity money**  
**commodity reserve currency**  
*Common Agricultural Policy*  
**common knowledge and financial markets**  
**common stock repurchase**  
**co-movements**  
**company failure**  
*competing currencies*  
**Competition and Credit Control**  
**competitive depreciation**  
*competitive moneys*  
**competitiveness in banking**  
**complexity and chaos in finance**  
*Comptroller of the Currency*  
*computer trading*  
**concentration in banking and other financial services**  
*conditionality*  
**confidence**  
**Congressional Budget Office**  
**conjectural guarantee**  
*consignment stock*  
*consols*  
**consumer credit**  
*consumer loans*  
*consumer loans and the life cycle*  
**consumer spending and housing wealth**  
*consumption-based asset pricing model*  
*consumption betas*  
**consumption function**  
*contango*  
**contingent claims analysis**  
**contingent commodities**  
**continuous and discrete time models**  
**continuous time stochastic models**  
**continuous time stochastic processes**  
**contrarians**  
*convertible bonds*  
**convertible securities**  
*Cooke Committee*

- cooperative banking groups  
 coordinated central bank  
   intervention  
 coordination of national policies  
*core capital*  
 core deposits  
 cornering the market  
*corporate borrowing*  
*corporate control, market for*  
*corporate failure*  
 corporate finance  
 corporate governance  
*corporate mergers*  
 corporate ownership and  
   management  
 corporate raiders  
 corporate restructuring  
 corporate takeovers  
*corporate taxation*  
*corporate treasury management*  
*correction*  
 correspondent banking  
*corridors*  
*corset*  
 cost of capital  
 cost of carry  
 cost of corporate capital in Japan  
 cost–push inflation  
 costs of bankruptcy  
 costs of equity issuance  
 Council for Mutual Economic  
   Assistance  
 counterparty risk  
 countertrade  
 country banks and banking  
 country risk  
*coupon*  
*covenants*  
 covered interest parity  
 crashes  
 crawling peg  
 creative accounting  
 credibility  
 Creditanstalt  
 credit cards  
 credit controls  
 credit creation  
 credit crunch  
 credit cycle  
 Crédit Foncier  
 credit market debt  
 credit markets in developing  
   countries  
 Crédit Mobilier  
 credit rating agencies  
 credit rationing  
 credit risk  
 credit screening  
 credit unions  
 cross-equation restrictions  
 cross hedging  
 cross of gold  
 crowding out  
 cumulative processes
- Cunliffe Committee  
 currencies  
 currency areas  
 currency baskets  
 currency boards  
 currency options  
 Currency Principle  
*currency reform*  
*currency risk*  
 Currency School  
 currency substitution  
*currency swaps*  
 current account of the balance of  
   payments: normative theory  
 daily money market operations of  
   the Bank of England  
 daily settlement  
 daylight credit  
 dealers in securities  
 dear money  
 debasement of the coinage  
*debentures*  
 debit cards  
 débouchés, théorie des  
 debt and default: corporate vs.  
   sovereign  
 debt crisis  
*debt–equity ratio*  
*debt–equity swaps*  
 debt–export ratios  
 debt exposure  
 debt forgiveness  
 debt moratorium  
 debt renegotiation  
 debt restructuring  
 debt retirement  
*deep pockets*  
 default premia  
 default risk  
 deficit financing  
 defining money  
 deflation  
 delivery structure of futures  
   contracts  
 demand and supply functions in  
   macroeconomics  
 demand for money: theoretical  
   studies  
 demand for money: empirical  
   studies  
 demand management  
 demand–pull inflation  
 Denmark: monetary and financial  
   system  
 dependent economy model of the  
   balance of payments  
 deposit insurance  
 depository institutions  
 depreciation  
*deregulation*  
 deregulation of American financial  
   markets  
 deregulation of European financial  
   markets
- deregulation of Japanese financial  
   markets  
 derivative deposit theory of  
   banking  
 derivative products  
 design of securities  
 Deutschemark  
*Deutsche Terminbörse*  
 devaluation  
 development banks  
 development bonds  
 development of financial  
   institutions  
 development of stock markets  
 differences of opinion  
 diffusion processes in finance  
*dilution*  
*direct investment*  
*directors*  
*dirty floating*  
 discount brokers  
 discounted cash flow model  
 discount houses  
 discount market  
 discount rate  
 discount window  
 disinflationary policies  
 disintermediation  
*divestment*  
 divestment and sell-off  
 dividend announcements  
 dividend capture  
 dividend policy  
 dividend puzzle  
 dollar  
*dollarization*  
*domestic credit expansion*  
 dominant and dependent  
   currencies  
 double-entry bookkeeping  
 Dow Jones indicators of stock  
   prices  
*downtick*  
*draining liquidity*  
*dual exchange rates*  
*dual system of banking*  
*due diligence*  
 duration and immunization  
 dynamic hedging  
 dynamic programming  
 dynamic programming and Markov  
   decision processes  
*dynamic spanning*  
 Economic and Monetary Union of  
   the European Community  
 economies of scale in financial  
   activities  
 ecu  
 ecu bond market  
*education, financial aspects of*  
 effective exchange rates  
 efficiency of sports and lottery  
   betting markets  
*efficiency wages*

- efficient market hypothesis  
*efpos*  
 elasticities approach to the balance of payments  
 electronic funds transfer  
 emerging stock markets  
 empirical testing of asset pricing models  
 employee ownership  
 Employer Retirement Income Security Act  
 endogenous and exogenous money  
 energy price shocks  
*equity assets ratio*  
*equity derivatives*  
*equity markets*  
 equity of financial intermediaries  
 equity premium  
 equity premium puzzle  
 erga omnes principle  
 ergodic theory  
 ethical investment  
 ethics in finance  
*eurobond market*  
 eurocurrency markets  
*eurodollars*  
 euromarkets  
 European Bank for Reconstruction and Development  
 European Central Bank  
 European Community  
*European currency unit*  
 European Economic Area  
 European financial futures exchanges  
*European financial markets, deregulation of*  
 European Free Trade Association  
 European Investment Bank  
 European Monetary System  
*European Monetary Union*  
*European options*  
 European Options Exchange  
 European Payments Union  
*event risk*  
 event studies  
*excess reserves*  
 exchange  
 exchange control  
 exchange-for-physical  
*exchange rate dynamics*  
 exchange rate exposure  
 Exchange Rate Mechanism of the European Monetary System  
 Exchange Rate Mechanism of the European Monetary System, problems of the  
 exchange rate pass-through  
 exchange rate regime choice  
 exchange rates  
 exchange risk  
 exchange stabilization accounts  
 ex-dividend stock price behaviour  
 executive stock options  
*exercise price*  
 exit bonds  
 exotic currencies  
 expectations  
 expectations and real interest rates  
*expectations hypothesis*  
 expected utility hypothesis  
 experimental asset markets  
 export finance  
 factoring  
 failure of financial markets  
 Fannie Maes  
*fast market*  
 federal agricultural finance agencies  
 Federal Deposit Insurance Corporation  
 federal funds market  
 federal funds rate  
 Federal Home Loan Bank System  
 federal housing finance agencies  
*Federal National Mortgage Association*  
*Federal Open-Market Committee*  
*Federal Reserve Board*  
 Federal Reserve System  
 Federal Savings and Loan Insurance Corporation  
 Fedwire  
 fiat money  
 fictitious capital  
 fiduciary  
 fiduciary issue  
 filter rule tests  
 finance  
 finance capital  
*finance subsidiaries*  
 financial aspects of education  
 financial contracting  
 financial crises  
 financial crises and credit cycles  
 financial deregulation and credit controls  
 financial deregulation and re-regulation  
 financial engineering  
 financial free lunches  
 financial implications of ageing populations  
 financial innovation and money supply  
 financial innovation and regulation in the United States  
 financial instability hypothesis  
*financial institutions, development of*  
 Financial Institutions Reform, Recovery, and Enforcement Act of 1989  
 financial intermediaries  
 financial journalism  
*financial markets, stability of*  
 financial press  
 financial repression  
 financial secrecy  
*Financial Services Act of 1986*  
 financial services industry  
 financial structure and economic development  
*financial supermarkets*  
 financial theory and property-liability insurance  
 Financial Times indexes  
 financial usage in Britain and the United States  
 financial zoos  
 First and Second Banks of the United States  
 fiscal and monetary policies in developing countries  
 fiscal impulse  
 fiscal policy in open economies  
 fiscal stance  
 Fisher effect  
*Fisher's Law*  
 Fisher's Separation Theorem  
 fixed exchange rates  
 fixed-income markets  
*flexible exchange rates*  
*flight to quality*  
 float  
 floating exchange rates  
 floating rate notes  
*floor brokers and traders*  
*floors*  
 flow of funds  
*flow trading*  
 forced currency  
 forced saving  
 forecasting  
 foreign aid  
*foreign debt*  
 foreign direct investment  
 foreign exchange auctions  
 foreign exchange market intervention  
 foreign exchange markets  
 foreign exchange markets: history  
 foreign exchange options  
 foreign exchange reserves  
*foreign exchange risk premia*  
 foreign exchange swaps  
 foreign investment  
 foreign portfolio investment  
 foreign takeovers  
 foreign trade multiplier  
*forex markets*  
 forfeiting  
 forward and futures contracts  
 forward markets  
 fourth market  
 fractional currency  
*fractional reserve banking*  
 framing hypothesis  
 France: monetary and financial system  
 franchising  
 franc zone  
 Frankfurt Stock Exchange  
 fraud

- free banking  
 free banking: theory  
 free banking: history  
*free cash flow*  
*free lunch*  
*free reserves*  
*fringe banks*  
*front running*  
 Fuggers  
 full employment  
 full employment budget surplus  
*fundamental analysts*  
 fundamental disequilibrium  
 fund management  
 fungibility  
 futures clearinghouse  
*futures clearing houses*  
 futures markets, hedging and speculation  
 futures trading  
 gains from trade in monetary economies  
 gambling  
 game theory in finance  
*Garn–St Germain Act*  
 gearing  
 Genoese exchange fairs  
 German Monetary Unification  
 Germany: monetary and financial system  
 Gibson paradox  
 gilt-edged market  
 Ginnie Maes  
 giro banks  
 Glass–Steagall Act  
 global financial markets  
*going private*  
 going public  
 Gold and Silver Commission  
 golden parachute  
 gold exchange standard  
 gold markets  
*gold mining*  
*gold points*  
*gold reserves*  
 goldsmiths  
 gold standard  
 gold standard: theory  
*gold sterilization*  
 gold supply  
 goodwill  
*government bonds*  
*government debt*  
*government deficits*  
*Government National Mortgage Association*  
 Gramm–Rudman–Hollings Balanced Budget Act  
*Granger causality*  
*gravedancer*  
*Great Crash of 1929*  
 Greece: monetary and financial system  
 greenbacks  
 green currencies  
*greenmail*  
 Gresham's Law: history  
 Gresham's Law: theory  
 Group of Seven (G7)  
 hard ecu  
 harmonization of taxes on capital income  
 hedging  
 Herstatt crisis  
 hidden actions, moral hazard and contract theory  
 hidden reserves  
 highly confident letter  
 high-powered money and the monetary base  
 historical cost accounting  
*hoarding*  
*holding companies*  
*home loans*  
 Hong Kong: monetary and financial system  
*Hong Kong Stock Exchange*  
*hostile takeovers*  
 hot money  
 House of Rothschild  
 housing and mortgage markets  
 housing finance  
*hubris hypothesis*  
 hyperinflation: theory  
 hyperinflation: experience  
*idiosyncratic risk*  
*idle balances*  
 illegal demand for currency  
 immunization  
*inadequacy of bank capital*  
 incentive compatibility  
*incentive constraints*  
 incentive contracts in labour markets  
*income*  
 income–expenditure analysis  
 incomes policies  
*income velocity*  
 incomplete contracts  
 incomplete financial markets  
 incomplete markets  
*indentures*  
*index arbitrage*  
 indexation  
 indexed assets  
 index futures  
 index numbers  
 India: monetary and financial system  
 indicators  
 Individual Retirement Accounts  
 industrial banking  
*industrial organization of banking*  
 infinite regress in expectations  
 inflation  
*inflation, measures of*  
 inflation accounting  
 inflationary expectations  
 inflationary gap  
 inflation hedges  
*inflation risk*  
 inflation tax  
*informationally efficient markets*  
 informational role of futures markets  
*information theft*  
*initial public offerings*  
 inland bill of exchange  
*inner reserves*  
 innovation, finance of  
*innovation in financial products*  
 innovation in retail banking  
 inside and outside money  
*inside and outside spreads*  
*inside information*  
 insider trading  
 insolvency and bankruptcy  
*instalment credit*  
 institutional investors  
*in-substance defeasance*  
 insurance  
 insurance companies  
 insurance markets  
*insured deposits*  
 integrated circuit card  
 integrated time series  
 interbank markets  
 interest rate ceilings  
 interest rate futures  
 interest rate hedges  
 interest rate options  
 interest rate risk  
 interest rates  
 interest rate swaps  
*intermediation*  
 internal rate of return  
 International Bank for Economic Cooperation  
*International Bank for Reconstruction and Development*  
 international capital flows  
 international capital market integration  
*International Clearing Union*  
*international currency*  
 international finance  
 international financial stability  
 international income comparisons  
 international indebtedness  
 International Investment Bank  
 international liquidity  
 International Monetary Fund  
 international monetary institutions  
 international monetary policy  
 international policy coordination:  
   game-theoretic perspectives  
*International Stock Exchange*  
 international transmission of inflation and deflation  
 interstate banking  
 intertemporal portfolio theory and asset pricing



- intervention*  
*in the money*  
*intrafirm transactions*  
**inventories**  
**inventory cycles**  
**investment**  
**investment banking**  
*investment companies*  
**investment decision criteria:**  
     **private decisions**  
**investment decision criteria: public**  
     **decisions**  
**investment trusts**  
**invisible trade**  
**Ireland: monetary and financial**  
     **system**  
**Islamic banking**  
**Israel: monetary and financial**  
     **system**  
**Italy: monetary and financial**  
     **system**  
*Ito's Lemma*  
*January effect*  
*Japanese financial markets, deregulation of*  
*Japanese property market*  
**Japan: monetary and financial**  
     **system**  
**J-curve**  
*jobbers*  
**Joint Economic Committee of the US**  
     Congress  
**joint stock banks**  
**junk bonds**  
*k*  
**Kalman filter**  
**key currency**  
*killer bees*  
**kiting**  
**Knights Templar**  
**Laffer curve**  
**land-backed currency**  
*laundering*  
**law of one price**  
**law of reflux**  
*laying off*  
*lead banks*  
**leads and lags**  
*lead underwriter*  
**leaning against the wind**  
**leasing**  
*legal restrictions theory*  
**legal tender**  
**lender of last resort**  
*letter of credit*  
*letter stock*  
**leverage**  
**leveraged buyouts**  
*leverage effect*  
*liability management*  
*lifeboat*  
**life cycle hypothesis**  
**life insurance**  
**limited liability, development of**  
**liquidation**
- liquidation, voluntary*  
**liquidity**  
**liquidity and markets**  
**liquidity preference**  
*liquidity premium*  
*liquidity ratio*  
**listing**  
**Lloyd's of London**  
**loanable funds**  
**loan commitments**  
**loan contracts**  
**loan loss reserves on Third World**  
     **debt**  
**local banks**  
**lock-in effect**  
*Lombard rate*  
**Lombards**  
**Lombard Street**  
*London Baltic Exchange*  
*London Interbank Offered Rate*  
*London International Financial Futures*  
     *and Options Exchange*  
**London Metal Exchange**  
**London Stock Exchange**  
*London Traded Options Market*  
**lotteries**  
*Lowre Accord*  
**Lucas critique**  
**Luxembourg: monetary and**  
     **financial system**  
*M0, M1, M2, M3, . . .*  
*Macaulay duration*  
**Macmillan Committee**  
**macroeconomic models**  
**macroeconomics: relations with**  
     **microeconomics**  
*main bank system in Japan*  
*managed exchange rates*  
**management buyouts**  
**management buyouts from the**  
     **public sector**  
*managerial incentives*  
**manipulation of financial markets**  
*marché à terme international de France*  
**marginal efficiency of capital**  
**margin requirements and stock**  
     **trading**  
**margin trading**  
**Maria Theresa dollar**  
*mark*  
**market and environmental**  
     **uncertainty**  
*market anomalies*  
**market capitalization**  
*market clearing*  
**market failure**  
**market for corporate control**  
*market impact*  
**market liquidity**  
**market makers**  
**market myopia**  
*market resiliency*  
*market risk*  
**markets with adverse selection**
- market timing*  
*market valuation*  
**market value**  
**market value accounting**  
*market volatility*  
*marking to market*  
*Marshallian K*  
**Marshall Plan**  
**martingales**  
**matching**  
*maturity date*  
**maturity transformation**  
*McFadden Act*  
**mean reversion**  
**means of payment**  
**mean–variance analysis**  
**measures of inflation**  
**measures of the money stock**  
**mechanism design and incentive**  
     **constraints**  
*medium of exchange*  
**medium-term financial policy**  
**menu costs**  
**merchant banking**  
**mergers**  
**mergers of financial intermediaries**  
**metallic standard**  
**Mexico: monetary and financial**  
     **system**  
**mezzanine financing**  
**Middle East: monetary and**  
     **financial system**  
**mining finance**  
**Mississippi Company**  
**Modigliani–Miller Theorem**  
**Monday blues**  
**monetarism**  
**monetary approach to the balance**  
     **of payments**  
**monetary base**  
**monetary constitutions**  
**monetary cranks**  
**monetary disequilibrium and**  
     **market clearing**  
**monetary heresies**  
**monetary policy**  
**monetary policy coordination and**  
     **monetary convergence**  
**monetary policy in Japan**  
**monetary reform**  
**monetary system of socialist**  
     **economic integration**  
**monetary targeting**  
**monetary transmission**  
     **mechanisms**  
**monetary unions**  
*monetary veil*  
**money**  
**money, credit and trust**  
**money and bond markets in Hong**  
     **Kong**  
**money and general equilibrium**  
     **theory**  
*money at call and short notice*

- money brokers  
 money centre banks  
*money creation*  
 money illusion  
 money in the utility function  
 money laundering  
 moneylenders in developing countries  
*money managers*  
 money market funds  
*money market operations*  
 money markets  
 money markets in India  
*money multiplier*  
 money supply  
 money supply announcements  
 Money Trust  
 monitoring of financial institutions  
*monometallism*  
*moral hazard*  
 mortgage-backed securities  
 mortgage lending  
 mortgage markets in Britain  
*mortgage service contracts*  
*multinationals*  
 multiple exchange rates  
 multivariate time series models  
 municipal bonds  
 mutual funds  
 mutual savings institutions  
 national accounting and financial flows  
*National Association of Securities Dealers Automated Quotations*  
 national debt  
*National Market System*  
 natural rate and market rate  
 natural rate hypothesis  
 near money  
*negotiable certificates of deposit*  
*negotiated order of withdrawal*  
 neoclassical synthesis  
 neo-structuralist views of inflation  
 Netherlands: monetary and financial system  
*netting, multilateral*  
*net worth*  
 neutrality of money  
 new classical macroeconomics  
*new issues*  
 new monetary economics  
 New View of banking  
 New York Futures Exchange  
 New York Mercantile Exchange  
 New York Stock Exchange  
 noise trading  
 noisy data and monetary policy  
 nominal exchange rates  
*nominal rate*  
 non-accelerating-inflation rate of unemployment  
 non-clearing markets in monetary economies  
 nonexpected utility theory  
 non-performing loans  
 non-price competition in banking  
 non-trading effect  
*normal backwardation*  
*normal market size*  
 Norway: monetary and financial system  
 note issuance facilities  
*note issue*  
*notes*  
*notional bonds*  
 NOW accounts  
 Office of Management and Budget  
*Office of Thrift Supervision*  
 offshore banking  
*offshore bond market*  
 off-the-balance-sheet activities  
*oil price shocks*  
*open economy macroeconomics*  
*open-end mutual funds*  
 Open Market Committee of the Federal Reserve System  
 open-market operations  
 open outcry  
 optimum currency areas  
 optimum quantity of money  
 option pricing theory  
 options  
 options markets  
*orange juice*  
 orderly markets  
 Organization for Economic Cooperation and Development  
 Organization of Petroleum Exporting Countries  
*organized product markets*  
*out of the money*  
*outside money*  
 overdrafts  
 Overend Gurney crisis  
 overfunding and the full fund rule  
 overissue of currency  
 overlapping-generations model and monetary economics  
*overnight repurchase agreement*  
 overshooting  
 over-the-counter market  
 Oz  
 Pac-Man defence  
*panics*  
*paper*  
*paper currency*  
*paper money*  
 parallel currencies  
 parallel markets  
 Paris Bourse  
*Paris Club*  
 parity, prewar  
 partnerships  
*par value relation*  
*passive portfolio management*  
*pass-through security*  
 pawnbroking  
 pay-off period  
 pegged exchange rates  
 pension funds  
 pensions  
 performance evaluation  
 performance-related fees  
*permanent floating rate notes*  
*permanent income hypothesis*  
 personal bankruptcy  
 personal credit markets  
 peso problem  
*petrodollars*  
 Phillips curve  
*placements*  
*placing*  
 playing card currency  
*Plaza Agreement*  
 point of sale  
*poison pill*  
*policy coordination*  
 Ponzi games  
 pooling and separating equilibria  
*pooling of interests, and mergers*  
 portfolio analysis  
 portfolio insurance  
 Portugal: monetary and financial system  
*postal banks*  
*pound sterling*  
 precautionary motives for holding assets  
 precious metals, distribution of  
 predation and financial resources  
 prediction  
 prediction of bankruptcy  
 pre-emptive rights  
*preferred habitat*  
 preferred stock  
 present value  
 prevention of money laundering: the case of Luxembourg  
*prewar parity*  
 price discrimination and monetary assets  
 price-earnings ratios  
 price indices  
 price level adjusted mortgages  
 price revolution  
*primary markets*  
 prime rate  
*primitive money*  
 principal and agent  
 Prisoner's Dilemma  
 private corporate funding  
*private currencies*  
 private equity issues  
 private information  
 private placements  
 privatization  
 privatization and institutional change in Eastern Europe  
 privatization of financial institutions  
*profit and loss statement*  
 programme trading

- project financing  
 property finance  
 property market in Japan  
 property rights  
*prospectus*  
 providing (draining) liquidity  
 proxy contests  
*pseudo-exchange-rate unions*  
 P-star model  
 public debt  
 public sector borrowing  
 Public Sector Borrowing Requirement  
 public utility finance  
*purchase and acquisition accounting*  
 purchasing power parity  
*put options*  
*put provision*  
*pyramid schemes*  
 Q  
*quality spread*  
 quantity theory of money  
 Radcliffe Committee  
 railroad financing  
*random walk hypothesis*  
 rate of return  
 rational bubbles  
 rational expectation business cycle models  
 rational expectations  
 rational expectations: econometric implications  
 rational expectations equilibrium  
*rationed equilibria*  
*rationing in credit markets*  
 real balances  
 real bills doctrine  
 real bills doctrine in classical economics  
*real business cycles*  
*real estate finance*  
*real estate mortgage investment conduits*  
 real exchange rates  
 real interest rates  
*receivables*  
*receivership*  
 recoinages  
 recourse  
*recycling of assets and liabilities*  
 redlining  
*reflux, law of*  
 regime changes  
 regional banks  
 regional stock markets  
 regulation of commercial banking in the United States  
 regulation of international banking  
 regulation of takeovers  
 Regulation Q  
*Reichsbank*  
 reinsurance  
*reinvestment risk*  
 reparations  
*repos*  
*repudiation*  
 repurchase agreement  
 reputation  
 reputation, incentives and managerial decisions  
 rescheduling of sovereign debt  
 reserve currency  
 reserve requirements  
*resistance levels and support levels*  
 Resolution Funding Corporation  
 Resolution Trust Corporation  
*resumption of specie payments*  
*retail banking*  
*retention ratio*  
 retirement of public debt  
*retractable bonds*  
*return on capital*  
 revelation principle  
*reverse repo*  
 revolving credit systems  
 rhetoric of finance  
 Ricardian equivalence theorem  
 rights issues  
 risk  
 risk analysis  
 risk aversion  
*risk-based capital ratios*  
 risk exposure of banks  
 riskless asset  
 risk premium  
 roll-over  
*rotating credit associations*  
*Rothschild, House of*  
 rouble  
*round trip*  
 Rule 144A  
 rules versus discretion  
*runs on the banks*  
*Samurai bonds*  
 saving and consumption behaviour  
 savings and loan associations  
 savings and loan crisis  
 savings banks  
 Say's Law  
 Scarce Currency Clause  
 Scottish free banking  
*screening*  
 screen trading  
 scrip money  
 SDR  
 seasonality and monetary policy  
 seasoned equity issues  
*seats on securities markets, markets in*  
 secondary banking crisis  
 secondary markets  
 secondary mortgage markets  
*secondary offerings*  
 secured creditor  
 Securities and Exchange Commission  
 Securities and Exchange Commission: securities fraud and insider trading  
 Securities and Investments Board  
*securities dealers*  
 securities markets, structure of  
 securities markets and general equilibrium  
 securities ratings  
 securitization  
 security analysts  
*security market line equation*  
*security selection*  
 seigniorage  
 self-regulation of financial markets  
 sell-offs  
*semi-strong form of market efficiency*  
*seniority of debt*  
*separating equilibria*  
 settlement price  
 shareholder liability regimes in banking  
 shareholders  
*share repurchase*  
*shark repellent*  
 shelf registration  
*short interest*  
 short selling  
 short-termism  
 signal extraction  
 signalling  
 signalling with dividends  
 Singapore: monetary and financial system  
*Single Market Act of the European Community*  
 sinking funds  
*size effect*  
*sleeping beauty*  
*sleeping point*  
 small firm effect  
*smart cards*  
*Smithsonian Agreement*  
 Snake  
 social accounting  
 social accounts of the financial sector  
 Social Credit  
 socialist banking  
 social security  
 social security surpluses  
 sound money  
 South Africa: monetary and financial system  
 South Korea: monetary and financial system  
 South Sea Bubble  
*sovereign debt*  
 sovereign default  
 Soviet monetary system  
 Spain: monetary and financial system  
 spanning in securities markets  
*Special Drawing Right*  
 specialists  
 specie-flow mechanism  
 spectral analysis  
 speculation

- speculative attacks  
*speculative bubbles*  
 speculative markets in art and artefacts  
 speculative motive for holding money  
*speculative takeovers*  
 spot and forward markets in international finance  
*spreads*  
*stability of financial markets*  
 stabilization policy  
 stagflation  
 stakeholders  
*standby agreement*  
 standby letters of credit  
*standstill agreement*  
*state and local bonds*  
*state contingent commodities*  
 state preference approach  
 stationarity  
 stationary time series  
 statistical inference in time series  
 sterilized intervention  
 sterling  
 sterling area  
 stochastic calculus  
 stochastic dominance  
 stochastic optimal control  
*stock brokers*  
 stock exchange and the equity market in Hong Kong  
*Stock Exchange Automated Quotations*  
 Stockholm School  
 stock index arbitrage  
*stock index futures*  
*stock jobbers*  
 stock market anomalies  
*stock market bubbles*  
 stock market crash of October 1929  
 stock market crash of October 1987  
 stock market indices  
*stock markets, development of*  
*stock options*  
 stock prices and martingales  
*stock repurchase*  
 stock returns and nonlinear dynamics  
 stock splits  
 stop-loss order  
 store of value  
 strategic issues of managerial incentives  
*strike (striking) price*  
 stripped bonds  
 stripped mortgage-backed security  
*stripping*  
*strong form of market efficiency*  
 subordinated debt  
*subscription rights*  
*subscription warrants*  
 sunspot equilibrium  
 Super Bowl stock market predictor  
 superneutrality  
 supershares  
 Supplementary Special Deposits Scheme  
 supply shocks in macroeconomics  
 supply-side economics  
*suspended trading*  
*suspension and resumption of specie payments*  
*swap facility in foreign exchange*  
 swap markets  
 Sweden: monetary and financial system  
 Switzerland: monetary and financial system  
 symmetallism  
 syndicates  
 systematic risk  
*tabular standard*  
 Taiwan: monetary and financial system  
 takeover defences  
 takeover language  
 takeovers  
 tale  
*tap issues*  
 target zones for exchange rates  
*taxation of capital gains*  
*technical analysts*  
*technical rally*  
*Templars*  
 tender offers  
 term structure of interest rates  
 testing for unit roots  
 thin markets  
*Third Market*  
 Third World debt  
 thrifts  
*tick*  
*Tier 1 and Tier 2 capital*  
*time deposits*  
 time inconsistency in monetary policy  
*tippee*  
*Tobin's  $q$*   
*toehold*  
 Tokyo Stock Exchange  
 tontines  
*too big to fail*  
 Toronto Stock Exchange  
 total incomes system of accounts  
*touch*  
 trade credit  
 trade in financial services  
*trading halts*  
 trading on information in financial markets  
 trading volume  
*tranche*  
 transactional risk  
 transaction costs  
 transactions motive for holding money  
 transferable rouble  
*Transfer and Automated Registration of Uncertificated Stock*  
 transfer pricing  
 transfer problem  
 transmission mechanism and the price level  
*travellers cheques*  
 Treasury bill market  
 Treasury bills and bonds  
 treasury management  
*Triffin dilemma*  
*triple witching hour*  
 trust departments of banks  
*tulipmania*  
 turn-of-the-year effect on stock market prices  
*twenty-four hour financial markets*  
*two-fund separation*  
 two-tier foreign exchange markets  
 UK social security system  
 unbundling  
*unbundling of financial intermediation*  
 uncertainty  
 uncovered interest parity  
*undated securities*  
*underpricing of new issues*  
 underwriting of insurance contracts  
 underwriting of new issues  
*undisclosed reserves*  
 uninsured deposit systems  
 unit of account  
 unit roots  
 unit trusts  
 universal banks  
 universal money  
 Unlisted Securities Market  
*upstairs and downstairs trading*  
 uptick, downtick, zero-tick and zero plus tick  
 Uruguay Round  
 US Social Security system  
 usury  
 usury laws  
*utility function, money in the*  
 utility theory and decision theory  
 value-added tax  
*vanilla swap*  
 vector autoregression methods  
 vehicle currencies  
*veil of money*  
 velocity of circulation  
 vendor financing  
 venture capital  
 volatility  
 volume in capital markets  
 voluntary liquidation  
 wage indexation  
 Wall Street  
 Walras's Law  
 Walters critique  
 war finance  
 warrants  
*wash sale*

**weak, semi-strong and strong**  
**forms of market efficiency**  
*wealth*  
*wealth effect*  
weather  
**welfare economics of financial**  
**markets**  
**welfare losses from monopoly in**  
**banking**  
*when-issued trading*  
*white knight*  
*white squires*

*wholesale banking*  
**wholesale money market**  
wholesale payments systems  
**widow's cruse**  
**Wiener process**  
**wildcat banking**  
*Wilson Report*  
*window*  
**window dressing**  
**winner's curse**  
*witching hour*  
**Wizard of Oz**

*working capital*  
**World Bank**  
*world financial markets*  
*Yankee bonds*  
yen  
yield curve  
yield spreads  
*yield to maturity*  
**zero-coupon bonds**  
*zone franc*  
*zoos*

# LIST OF ACRONYMS

<b>ACH</b>	automated clearing house	<b>DIDMCA</b>	Depository Institutions Deregulation and Monetary Control Act
<b>ADR</b>	American Depository Receipt	<b>DTB</b>	Deutsche Terminbörse
<b>APT</b>	arbitrage pricing theory	<b>EBRD</b>	European Bank for Reconstruction and Development
<b>ARCH models</b>	autoregressive conditionally heteroskedastic models	<b>EC</b>	European Community
<b>ARIMA</b>	autoregressive integrated moving average	<b>ECB</b>	European Central Bank
<b>ARMs</b>	adjustable rate mortgages	<b>ecu</b>	European Currency Unit
<b>BIS</b>	Bank for International Settlements	<b>EEA</b>	European Economic Area
<b>CAPM</b>	capital asset pricing model	<b>EFP</b>	exchange-for-physical
<b>CATS</b>	Computer Assisted Trading System	<b>EFT</b>	electronic funds transfer
<b>CBO</b>	Congressional Budget Office	<b>EFTA</b>	European Free Trade Association
<b>CBOE</b>	Chicago Board Options Exchange	<b>EMH</b>	efficient market hypothesis
<b>CBT</b>	Chicago Board of Trade	<b>EMS</b>	European Monetary System
<b>CDs</b>	certificates of deposit	<b>EMU</b>	Economic and Monetary Union of the European Community
<b>CEOs</b>	chief executive officers	<b>ERISA</b>	Employee Retirement Income Security Act
<b>CFTC</b>	Commodity Futures Trading Commission	<b>ERM</b>	Exchange Rate Mechanism of the European Monetary System
<b>CHAPS</b>	Clearing House Automated Payments System	<b>ESOPs</b>	Employee Stock Ownership Plans
<b>CHIPS</b>	Clearing House Interbank Payments System	<b>FDIC</b>	Federal Deposit Insurance Corporation
<b>cif</b>	cost, insurance and freight	<b>FHLBS</b>	Federal Home Loan Bank System
<b>CME</b>	Chicago Mercantile Exchange	<b>FIMBRA</b>	Financial Intermediaries, Managers and Brokers Regulatory Association
<b>CMEA</b>	Council for Mutual Economic Assistance	<b>FIRREA</b>	Financial Institutions Reform, Recovery and Enforcement Act
<b>CMO</b>	collateralized mortgage obligation	<b>FNMA</b>	Federal National Mortgage Association
<b>COMECON</b>	Council for Mutual Economic Assistance	<b>fob</b>	free on board
<b>COMEX</b>	Commodity Exchange Inc.	<b>FOMC</b>	Open-Market Committee of the Federal Reserve System
<b>DCE</b>	Domestic Credit Expansion		

<b>FRB</b>	Federal Reserve Board	<b>NOW accounts</b>	negotiated order of withdrawal accounts
<b>FSA</b>	Financial Services Act	<b>NYFE</b>	New York Futures Exchange
<b>FSLIC</b>	Federal Savings and Loan Insurance Corporation	<b>NYMEX</b>	New York Mercantile Exchange
<b>G7</b>	Group of Seven	<b>NYSE</b>	New York Stock Exchange
<b>GATT</b>	General Agreement on Tariffs and Trade	<b>OECD</b>	Organization for Economic Cooperation and Development
<b>GEMMs</b>	Gilt-Edged Market Makers	<b>OMB</b>	Office of Management and Budget
<b>GMU</b>	German Monetary Unification	<b>OPEC</b>	Organization of Petroleum Exporting Countries
<b>GNMA</b>	Government National Mortgage Association	<b>OTC</b>	over-the-counter market
<b>IBEC</b>	International Bank for Economic Cooperation	<b>OTS</b>	Office of Thrift Supervision
<b>IBRD</b>	International Bank for Reconstruction and Development	<b>PE ratios</b>	price-earnings ratios
<b>IIB</b>	International Investment Bank	<b>PLAMs</b>	price-level adjusted mortgages
<b>IMF</b>	International Monetary Fund	<b>POS</b>	point of sale
<b>IMRO</b>	Investment Management Regulatory Organization	<b>PSBR</b>	Public Sector Borrowing Requirement
<b>IPOs</b>	initial public offerings	<b>REMICs</b>	Real Estate Mortgage Investment Conduits
<b>IRAs</b>	Individual Retirement Accounts	<b>REPO</b>	repurchase agreement
<b>JEC</b>	Joint Economic Committee of the US Congress	<b>RFC</b>	Resolution Funding Corporation
<b>LAUTRO</b>	Life Assurance and Unit Trust Regulatory Organization	<b>RTC</b>	Resolution Trust Corporation
<b>LBOs</b>	leveraged buyouts	<b>S&amp;Ls</b>	savings and loan associations
<b>LIBOR</b>	London Interbank Offered Rate	<b>SDR</b>	Special Drawing Rights
<b>LIFFE</b>	London International Financial Futures Exchange	<b>SEAQ</b>	Stock Exchange Automated Quotations
<b>LIFFOE</b>	London International Financial Futures and Options Exchange	<b>SEC</b>	Securities and Exchange Commission
<b>LTOM</b>	London Traded Options Market	<b>SEI</b>	socialist economic integration
<b>MATIF</b>	marché à terme internationale de France	<b>SFA</b>	Securities and Futures Authority
<b>MLR</b>	Minimum Lending Rate	<b>SIB</b>	Securities and Investments Board
<b>NAIRU</b>	non-accelerating-inflation rate of unemployment	<b>SML</b>	security market line equation
<b>NASDAQ</b>	National Association of Securities Dealers Automated Quotations	<b>SROs</b>	Self-Regulating Organizations
<b>NMS</b>	National Market System	<b>STRIPS</b>	Separate Trading of Registered Interest and Principal of Securities
		<b>TAURUS</b>	Transfer and Automated Registration of Uncertificated Securities
		<b>USM</b>	Unlisted Securities Market
		<b>VAR methods</b>	vector autoregression methods
		<b>VAT</b>	value-added tax

# CONTENTS

List of Entries A–Z	vii
List of Acronyms	xvii
The Dictionary F–M	1



# F

**factoring.** When a manufacturer sells products to a distributor, payment may be required on, before or after delivery. If payment is not required until after delivery, the manufacturer is extending *trade credit* to the distributor. As such, the manufacturer is financing the distributor's inventory and is directly or indirectly involved in assessing credit risk, monitoring distributor inventory, credit risk-bearing and collection activities.

Risk assessment, credit risk-bearing, monitoring and collection activities may be performed by the manufacturer or may be contracted entirely or partly to third parties such as credit reporting firms, collection agencies and factors. In *factoring* relationships these activities commonly are all performed by the factor. The factor charges a fee for credit management and credit risk-bearing. Fees equal to one to two percent of factored receivables are common depending on the level of credit management service required and expected credit risk losses. If factoring activity is limited to credit management and credit risk-bearing then the factor purchases the receivables at an agreed upon schedule that is related to the due date of the receivables according to the stated trade credit terms, but is not engaged in receivables financing *per se*. Often the purchase price is based on the *discount* price stated in the trade credit terms and the factor collects both the fee and the difference between *net* price and discount price for distributors who pay after the discount period.

Extending trade credit creates an account receivable on the books of the manufacturer, which can be financed in a variety of ways. Financing alternatives include borrowing secured by the trade receivables, creation of captive finance subsidiaries, which can raise capital directly, and borrowing from a factor who performs the credit management and credit risk-bearing functions. Borrowing occurs when the factor *advances* credit against factored receivables prior to the contractual due dates for payments based on the trade credit terms. Loans from factors are a form of short-term borrowing. The factor commonly charges interest tied to some underlying reference rate.

Firms that employ the credit management and credit risk-bearing functions of factors often find that borrowing from the factor compares favourably to other alternatives in terms of interest cost and flexibility. Thus, it is not surprising that contracts between the manufacturer and the factor commonly provide for receivables financing as well as credit assessment, credit risk-bearing, monitoring and collection services. An alternative arrangement used by some firms which provide their own credit management is occasionally to engage factors as lenders *ex post* to meet short-run financing needs. This appears to be one kind of factoring relationship that has given rise to the common perception

that borrowing from factors is expensive relative to other alternatives. Another is that factored receivables frequently involve products where typical trade credit discounts for prompt payment are large (such as stylish garments).

Payments received from the factor go toward reducing the balance of accounts receivable despite the fact that contingent liability still may exist. In many factoring arrangements the manufacturer notifies the factor on a continuous basis of any sales contracts it intends to enter into. The factor reviews each contract and either approves or rejects it. For *approved* contracts the factor assumes all credit risk *without recourse*. It may, however, retain the right to collect from the manufacturer if the distributor disputes the order and declines to pay for reasons such as unsatisfactory product quality or the manufacturer's breach of warranty. Thus, when the manufacturer delivers a contract to the factor the contract is accompanied implicitly by the seller's representation that the agreement will not be breached except due to the distributor's financial distress. In cases where the factor deems the credit risk to be unacceptably high, the contract will not be approved. In such a case, the manufacturer can still undertake the contract and can still engage the factor to finance the receivable and aid in collection if necessary, but the credit risk is borne by the manufacturer. The factor has *recourse* to the manufacturer if the account goes unpaid due to financial distress of the buyer.

Factoring relationships are complex bilateral contracts that involve many separate decisions with respect to unspecified contingencies and thus create the potential for *opportunism*. To limit the potential for opportunistic behaviour by the manufacturer the factor commonly requires an exclusive relationship with the manufacturer and perfects a security interest in all of the receivables of the manufacturer. The written contract does little to protect the manufacturer from opportunism by the factor, often specifying no more than that the factor 'will act in a commercially reasonable manner' in determining whether or not to approve accounts. Accordingly, the *reputation* of the factor appears to be a critical element of the efficient functioning of factoring markets. This appears to explain why the principal sources of factoring are commercial banks, factoring subsidiaries of bank holding companies and a few well-established *old-line* factors.

Despite the limited number of firms that provide factoring services, the Federal Reserve reports annual factoring volume by financial institutions to be in excess of \$40 billion or approximately half as much as financial institution lending secured by receivables. Several researchers have developed models intended, in part, to explain the heavy use of factors despite the common perception that factoring is an expensive form of receivables financing. Smith (1987) predicts