

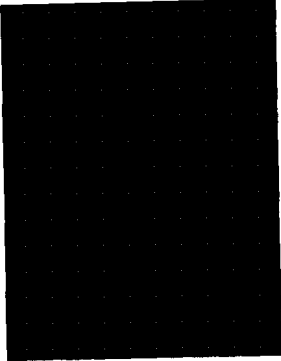
# THE U.S. FINANCIAL SYSTEM

MONEY, MARKETS, AND INSTITUTIONS

INCLUDES THE  
FDIC IMPROVEMENT  
ACT OF 1991

George G. Kaufman

Fifth Edition



# THE U.S. FINANCIAL SYSTEM

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MONEY, MARKETS, AND INSTITUTIONS

Fifth Edition

George G. Kaufman

*The John F. Smith Professor of Finance and Economics  
Loyola University of Chicago*



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# PREFACE

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The fifth edition of *The U.S. Financial System: Money, Markets and Institutions* has been thoroughly revised and updated to incorporate both the many dramatic structural, legislative, regulatory, and operational changes that have occurred at almost breathtaking speed in recent years and the comments and suggestions of users of the earlier editions. In particular:

- The discussion of the causes and consequences of the continuing debacles in the savings and loan and banking industries is significantly expanded.
- Summaries and discussions of the latest federal banking and deposit insurance reform legislation and pending proposals, including those contained in the 1991 Treasury Department study, are included.
- Increased emphasis is placed on the internationalization and globalization of financial markets and institutions in relevant chapters.
- Chapter 11 (Commercial Banks: Safety and Structure) has been substantially rewritten to reflect recent developments in bank safety and structure.
- Chapter 18 on deposit insurance has been rewritten to incorporate both the recent changes in the operation of the insurance agencies—such as the termination of the FSLIC, the expansion of the FDIC, and the financial difficulties of the FDIC—and the proposals for reforming and restructuring the system.
- Chapter 19 (Deregulation and Regulatory Reform) has been updated to include the most recent changes in bank product and geographic powers as well as the recommendation for expanding these powers.
- A number of new exhibits provide readers with current “real-life” examples of what is discussed in the chapters. New exhibits include one on the adverse implications of inflation in Brazil (Chapter 2), pawnbrokers as the lender of last resort to low-income households (Chapter 13), and incentives for the Bank of New Zealand to keep inflation low (Chapter 33).



- Chapter 23 (Financial Innovation) has been expanded to include junk bonds and Eurodollar deposits at domestic U.S. banks (Americurencies).
- A new study guide for students has been prepared by Elinda Fishman (Temple University). Cynthia Latta (DRI Inc.) has updated the instructor's manual and the test bank.

The fifth edition retains its emphasis on constructing a consistent general framework at a basic level in the first chapters of each section, within which students can analyze and understand financial markets and institutions and Federal Reserve monetary policy. In the chapters that follow, the theory that was developed is applied to analyze specific “real-world” issues of current importance, such as bank safety, separation of commercial and investment banking, and inflation. One third of the chapters are devoted to such issues. These chapters are at a somewhat higher level than the earlier chapters.

The book remains an introductory undergraduate and MBA text for courses both in financial institutions and markets in business schools and in money and banking in economics departments that emphasize “commercial” rather than “central” banking. However, it may be used for a second course by emphasizing the current-issues chapters, particularly in quarter term programs. The chapters remain brief in length but large in number so the instructor can pick and choose among topics to tailor the course to his or her own needs and to the issues particularly important at the time.

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The many drafts of the manuscripts were typed by Zena Lee at Loyola University. Gregory Gleason and Laura Page (Loyola University) provided research assistance. At Prentice Hall, the production editor was Nancy DeWolfe, the designer was Thomas Nery and the editor was Leah Jewell. David Hildebrand was the original acquisitions editor. I was also aided by the responses of my students and other readers who were more than generous with their suggestions for improvements.

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