

THE NEW
PALGRAVE
DICTIONARY OF
MONEY
& FINANCE

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MONEY & FINANCE

EDITED BY
PETER NEWMAN · MURRAY MILGATE
JOHN EATWELL

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PREFACE

The last twenty years have seen unprecedented change in the world's financial markets. Sustained and rapid progress in electronic data-processing has led to sharp falls in transaction costs and these in turn have brought about massive innovation in financial systems and products. Simultaneous with this process, and interwoven with it, extensive changes in regulation and taxation have themselves spurred major innovation in financial instruments. In particular, widespread deregulation has increasingly blurred traditional distinctions between financial institutions. In North America and Britain, for example, it seems doubtful whether retail banks will continue to play the central role in intermediation that they have in the past.

These profound changes in the monetary and financial environment have taken place at great speed and often without full anticipation of their consequences. It is more than ever desirable, therefore, that practitioners and policy-makers should be aware of modern theoretical advances, and that academic researchers should know more about how modern capital markets and credit institutions actually work. In each case this Dictionary should provide an authoritative base from which to begin the acquisition of such knowledge.

I

Traditionally, university study of the subject 'money' has been located in departments of economics in faculties of arts or social sciences, whereas the subject 'finance' is to be found in the university's professional business or management school, usually in a department bearing that title. These differences in organization have corresponded in part to differences of scope and methodological approach. Painting with a very broad brush, one can label monetary economics as a subject that employs aggregative general equilibrium analysis to concentrate on the whole economy, and financial economics as one which uses disaggregative partial equilibrium analysis to study individual financial markets and agents.

Fortunately, over time these strategic differences between the two subjects have lessened substantially. Work by economic theorists has greatly strengthened major areas of financial economics which had been analytically weak (such as corporate finance), while in recent years monetary theory has itself been strongly influenced by finance-theoretic discussions of efficient markets. Increasingly, the two subjects have come to be based on similar foundations in modern economic and statistical theory.

Such convergence, however, has not yet proceeded to perfect union. Indeed, it is one useful consequence of this Dictionary that, in presenting so many essays on monetary and financial economics and thus bringing out similarities and differences in approach, style and technique, it may contribute to the process of *rapprochement* between them. At the least it should help in making financial economics more important in the training of general economists. It cannot of course create synthesis where none exists but it can lay all the cards of each side on the table, as it were, and see where they match and where they do not.

The distinction between 'money' and 'finance' is not the only one running through these three volumes. Another is the fruitful interplay between theoretical and applied work, with the latter taken to mean not only empirical inference but also policy analysis and institutional description. In monetary economics and even more in financial economics there is often a relative abundance of quantitative information available, and because of this both monetary and financial theory have always kept much closer company with the data than is the case, for example, with most branches of microeconomic analysis.

Even here, however, the data are still usually too few and too inappropriate to overcome that most pervasive of problems for economics, that the information one has is seldom plentiful or precise enough to allow definitive testing of alternative theories. For lack of such decisive empirical rejection, quite different explanations of the same phenomena may continue to compete on the market for ideas. This explains why *Money and Finance* sometimes has

two or three or even more essays on what is essentially the same theoretical subject, under different titles to which the reader is guided by the several cross-references that follow almost every essay.

Multiple essays will also be found on some of the applied topics in the Dictionary, again under different titles, since their authors may again have quite distinct points of view. The source of such difference can sometimes be mere geography – differing perspectives from the US and the UK, for example. But analysts may also use differing proportions of deductive theory and empirical inference in their treatment of an applied problem; or have varying balance between positive and normative aspects; or differ simply in their choice of the appropriate level of analytical difficulty. ‘Duplication’ of treatment in disciplines like economics is seldom a waste of space, and when occasionally it truly does occur is a small price to pay for variety of perspective.

II

This Dictionary is a companion work to *The New Palgrave: A Dictionary of Economics* (hereafter, *The New Palgrave*), which was published in four volumes by Macmillan in London and Stockton Press in New York in 1987, and was itself a modern reincarnation of the *Dictionary of Political Economy* edited by R.H. Inglis Palgrave (1827–1919) and published in three volumes by Macmillan in 1894, 1896 and 1899.

It is very appropriate that this companion work should be on money and finance, since Palgrave was himself primarily a distinguished analyst of banking and a lifelong practitioner of the art. He began his career at the age of sixteen in Gurney & Co.’s bank in Great Yarmouth Norfolk and worked his way up to a partnership. He was financial editor of *The Economist* and after Bagehot’s death its editor, as well as editor at various times of the *Banking Almanac* and *The Banker’s Magazine*. In 1882, and with Jevons’s blessing, his many writings on monetary and financial questions earned him a Fellowship of the Royal Society.

Money and Finance is an essentially new work, with 80 percent of its essays newly commissioned and all but one of its other essays drawn from *The New Palgrave*. All the contributors of the latter essays were asked to revise their earlier work if they so wished and in many cases, and to varying degrees, they accepted that invitation. Manuscripts of all the essays were received during the period from May 1990 to May 1992, with most arriving in the second twelve months.

While it is composed in the same scholarly spirit as *The New Palgrave* there are several differences between that more general work and the present Dictionary. In large part these occur precisely because the former was quite general in its scope while the latter covers a smaller range much more intensively. Thus in *The New Palgrave* there were almost 2000 essays (700 of them biographical) from over 900 contributors, while in *Money and Finance* there are over 1000 essays (none of them biographical) written by over 800 contributors.

A major difference is that whereas the essays in *The New Palgrave* were predominantly on theory and doctrine, in the present work there are several hundred essays concerned with more empirical matters, such as institutional analysis and description, monetary history, and problems of financial regulation. Discussions of practical matters can of course rapidly become outdated; extreme examples of this are the cataclysmic changes in monetary organization in Eastern Europe, of which any account now would only be written on the wind. We have tried throughout to maintain a reasonable balance between topicality and the long view.

Because this Dictionary is more specialized than *The New Palgrave* it is intrinsically less self-contained. On the empirical side this has been met in part by adding some 70 brief glossarial items, which give definitions of technical terms employed in the essays as well as descriptions of institutions referred to there. Similarly, a list of over 100 of the acronyms used in the essays appears at the beginning of each volume. On the side of theory and technique, Groups IX–XII of the Subject Classification placed at the end of Volume 3 list more than 200 essays in this Dictionary which are on those parts of microeconomics, macroeconomics, public finance and quantitative methods that are of most relevance to it.

Even so, there remain many important concepts of modern economic analysis (e.g. Nash equilibrium in non-cooperative game theory) which are frequently used in money and finance but which of necessity cannot be covered in this work without extending its scope unrealistically. If the reader encounters an unfamiliar concept of this kind he or she should consult *The New Palgrave*. Similarly, for those interested in exploring further the work of a particularly important monetary theorist (such as Hume or Thornton, Friedman or Keynes) their biographies will be found in that dictionary.

Even though it is not as self-contained as the larger work, within its chosen fields *Money and Finance* has a much denser structure than *The New Palgrave*. With its essay titles and glossary items supplemented by over 400 'external' cross-references which send the reader to relevant essays elsewhere in these volumes, the Dictionary's headword list comprises 1500 entries that cover a relatively narrow range. Moreover, the extensive Subject Classification and the cross-references at the end of most essays make that coverage even more complete. It is for these reasons that there is no separate index to the present work.

A full treatment of the historical and geographical aspects of money and finance would require the Dictionary to be extended to quite unmanageable length. While it has many essays on various branches of monetary and financial history, including the history of theory, even this substantial number can only be a sample of the whole wide sweep of the world's monetary history. Similarly, although serious efforts have been made to provide coverage of the monetary and financial systems of some 30 countries (with substantially more than that for France, Germany and Japan) still the main geographical focus of this Dictionary is North America and Britain. Two-thirds of its contributors come from the former region and 20 percent from the latter.

Finally, although about 80 percent of those from whom we requested essays did accept our invitation, that left a number of people who for one reason or another declined. In addition, several authors accepted the original commission but eventually provided either no draft at all or an unusable one; sometimes this happened too late to recommission the essay. Hence, it is dangerous to infer the editors' actual preferences regarding authors and topics from the final outcome of the Dictionary itself. If your favourite author is missing, he or she might well have been asked but could not oblige. If your prize hobby horse is not here it may well have been under starter's orders but unhappily fell at the last fence. It took over 200 years from the time of Davenant and King for economists to realize that normally one cannot identify a demand schedule (and still less a preference map) simply from observation of outcomes of the interaction between supply and demand functions. Such hard-won knowledge applies here too.

III

Acknowledgements are due first and mainly to the many hundreds of individual contributors to *Money and Finance*, who were always courteous and helpful and usually punctual as well. Their unfailing enthusiasm greatly leavened the job of editing the Dictionary. Thanks are due also to the distinguished members of the Advisory Board, who always responded promptly and usefully to our requests for assistance.

At Macmillan, Margot Levy's work as managing editor was even more central and highly valued than it was with *The New Palgrave*. Among several other workers at Macmillan we especially thank Alastair Levy for his acute discernment of subtle errors that had slipped past our scrutiny. Finally, we are grateful to Donna Althoff and Jenny Newman for secretarial assistance, and to the latter especially for her thorough and persistent checking of authors' bibliographies.

May 1992

Peter Newman

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John Eatwell

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All essays in these volumes represent the views of the authors, which are not necessarily those of the organizations to which they are affiliated.

USING THE DICTIONARY

The Dictionary includes 1008 essays, arranged in a single alphabetical sequence. In addition, the main sequence includes 70 short glossarial entries defining particular terms.

Several methods of signposting have been devised to make best use of the wide range of material included in the three volumes.

Cross-references. Throughout the alphabetical sequence, there are 420 cross-references which direct the reader to the essay where a particular topic is discussed: for example,

gold reserves. *See* RESERVE CURRENCY.

put options. *See* OPTION PRICING THEORY.

These cross-references have been selected with a view to anticipating the terms that users of the Dictionary might wish to see explained; the cross-reference will lead to the relevant essay in the book, where that topic is treated as part of a larger entry.

In addition, cross-references at the end of the essays point to the treatment of related subjects elsewhere in the volumes. Every essay in the Dictionary ends with an average of seven such references, so that by following all the signposts in a succession of entries the reader can trace the entire treatment of a broad subject area. To gain the broadest understanding of a topic and make best use of the Dictionary, all the cross-references to related entries should be followed through.

A complete *List of Entries*, including cross-references, is printed at the beginning of each volume.

The *Subject Classification* at the end of Volume III lists the 1008 entries in the Dictionary under 12 groups, which are in turn divided under 104 subheadings. A given essay may well occur more than once in this classification, so that for any subheading or group the list is fully comprehensive.

Abbreviations are only used in the text for acronyms in common parlance (e.g. IMF, EMS, GATT). In the bibliographies, all journal titles are spelled out in full.

Acronyms. Frequently used acronyms are defined in the *List of Acronyms* printed in each volume. With the exception of those very common terms mentioned above, acronyms are not used in the text without explanation.

Alphabetization. Entries are listed in alphabetical order *by letter*, not by word. This is illustrated in the following sequence:

bank failure
Bank for International Settlement
bank holding companies
banking acquisitions
Banking Act of 1933
Banking Act of 1935
banking crises
...
banking supervision
bank mergers
Bank of Canada
Bank of England
...
Bank rate
bank regulation
bank runs

bankruptcy

...

banks, retail and wholesale

bank surveillance, etc.

Exceptions are made in a few cases, where an account of theory precedes that of applied work: for example, 'hyperinflation: theory' appears before 'hyperinflation: experience'.

Authors. Each essay in the Dictionary is signed by its author or authors, in the form chosen by the contributors. For glossarial entries, the authors' names appear as initials only.

A List of Contributors, showing their affiliation at the time of writing and the titles of the essays they have written, will be found at the end of Volume III.

Reprints. Ten short essays were originally published in *Palgrave's Dictionary of Political Economy* (1894–99). These carry a by-line explaining their provenance and the author's name is printed in square brackets, for example [F.Y. Edgeworth].

Editorial style. Although the text has been standardized to follow British usage in spelling and punctuation, no attempt has been made to impose a false stylistic uniformity on the diverse entries that comprise the Dictionary. Only the names of individuals and institutions are capitalized (thus 'European Community' but 'ecu'); italics are used sparingly, and only to avoid ambiguity (thus '*a priori*' but 'et al.').

Bibliographies. Almost all essays in the Dictionary are followed by bibliographies. These give details of works referred to in the text and provide additional information on studies which the authors have drawn on, as well as recommended further reading. The bibliographies are in author/date form and always give the date of original publication with further editions or translations cited where appropriate.

Bibliographies are arranged alphabetically by author/editor and chronologically under the authors'/editors' names. Publications with joint authors are cited under the name of the first author, following the list of works with single authorship. Where publications have been issued by an institution, the name of the institution is regarded as the author.

All bibliographies are intended to be integral; that is, no other bibliography need be consulted to explain the references given in a particular essay.

The style used in citations is self-explanatory, but it may be helpful to outline the main principles. For books that have appeared in several editions, information is given pertaining to the original date of publication and to further editions. Publication details are provided for translations into English; no translation is provided for titles originally published in French, German, Spanish or Italian; titles in less familiar languages are translated.

Where page references in the text of an essay refer to a reprint or translation, the original date of publication is given in square brackets, followed by the date of the reprint and the appropriate pagination.

For journal articles, the title of the article is given in roman type, followed by the title of the periodical, the volume (and fascicle number where appropriate), month of publication (where known) and the page span.

Dissertations, working papers, discussion documents and other unpublished works are cited with the name of the appropriate institution.

Every effort has been made to provide full bibliographical references, including page spans for journal articles. Where information is incomplete (e.g. for journal articles forthcoming), the Editors and Publishers would welcome further information that would allow them to update and improve the bibliographies in the future.

M.L.

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*
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- Amsterdam Stock Exchange
- animal spirits*
- announcement effects*
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- arbitrage pricing theory
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- ARMA model
- Arrow–Debreu model of general equilibrium
- Arrow–Pratt measure of risk aversion*
- art and artefacts*
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- 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

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bottom fisher

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bounded rationality

Bourse, Paris

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Chapter 7 bankruptcy

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c.i.f. and f.o.b.

cigarette currencies

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classical theory of money

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clearing house associations

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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

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Congressional Budget Office

conjectural guarantee

consignment stock

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consumer loans

consumer loans and the life cycle

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consumption function

contango

contingent claims analysis

contingent commodities

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continuous time stochastic processes

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- cooperative banking groups
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corridors
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 cost of carry
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 costs of bankruptcy
 costs of equity issuance
 Council for Mutual Economic
 Assistance
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 crashes
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