

Index

- 9/11 terrorist attack, 381
- adjustable rate mortgages (ARM), 76–7
 direct finance, 57
 administrative lag, 326
 adverse selection, 185
 Advisory Commission to Study the Consumer Price Index, 42
 Affordable Care Act (2011), 3, 198
 aggregate demand and supply model, 314–19
 demand function, 315–16
 supply function, 316–17
 Akerlof, George, 184
 American International Group (AIG), 198
 animal spirits, 219, 301
 Asian financial crisis, 381
 asset bubbles, 27–9, 382–4. *See also* housing bubble
 displacement phase, 383
 irrational exuberance phase, 383–4
 liquidation phase, 384
 speculative excess phase, 384
 assets, 61
 Asso, Pier Francesco, 350
 asymmetric information problem, 184, 185, 200
 ATS accounts, 36
 automatic teller machines (ATMs), 269
- Bank for International Settlements (BIS), 234
 Bank of England, 234
 Bank of Japan, 169, 236, 247–8, 381
 ownership, 239
 banks, 36, 212. *See also* central banks
 commercial, 36
 savings and loan, 36
 base money, 50, 237, 273, 279
 Basel Committee on Banking Supervision, 192
 Baum, L. Frank, 161
 beggar-thy-neighbor policies, 149
 Beige Book, 340
 Bernanke, Ben, 21–2, 25, 287, 369
 bigger fool theory of asset pricing, 202
 Boskin 1.1%, 42
 Boskin, Michael, 42
- Bretton Woods system, 146, 224, 374
 brokers, 58, 93
 buck, breaking the, 38
 Bureau of Labor Statistics, 42
 Burns, Arthur, 247, 345, 371, 373–4
 business fluctuation, 15
 business sector, 59, 60, 73, 97
- CAMELS system, 194–5
 capital–asset requirements, 192–4
 capital gains, 90, 386
 capital markets, 92–3
 instruments, 66
 central banks, 4–5, 233–4
 as lender of last resort, 169, 237–8
 assets, 274
 foreign exchange market intervention, 145–6
 independence from government, 180, 351
 institutional design, 234–6
 liabilities, 274
 money supply and, 259–61, 273–4
 base money, 273, 279
 ownership, 238–40
 policy
 Keynesian period, 322
 rationale for, 234–8
 resolution of commodity-based and fractional
 reserve system issues, 168–70, 395. *See also*
 Bank of Japan
 transparency, 249–50, 344–5
 checking accounts, 35–6, 209, 325
 China, 7, 80
 Chrysler, 225
 Civil War, 160, 182, 215
 Classical School of economics. 51, 181. *See also*
 Neoclassical economics
 fiscal policy, 320–1
 macroeconomic model, 296–8
 Clinton
 Bill, 42
 coin, 35, 159–60
 Coinage Act (1792), viii, 161
 collateralized debt instruments, 197

- Commerce, Department of, 13
 Commodities Futures Trading Commission, 171
 commodity-based systems, 169
 commodity money, 45, 50
 Community Reinvestment Act (1977), 175
 Competitive Equality in Banking Act (1987), 227
 Comptroller of the Currency, 171, 196, 216
 Congressional Budget Office, 14
 Connally, John, 247
 Consumer Financial Protection Bureau, 171, 230
 consumer price index (CPI), 12, 41
 upward bias, 42–5
 contagion problem, 165
 contractual savings institutions, 72
 Copernicus, Nicolaus, 51
 cost of living adjustment (COLA), 44
 counterfeiting, 159
 credit-based system, 48
 credit cards, 40
 credit default swaps (CDS), 197
 credit rating industry, 186, 200
 credit union share drafts, 36
 credit unions, 37
 crony capitalism, 19, 178–9
 crony unionism, 19
 Cukierman, Alex, 355
 currency, 35
 current account, 151, 155
- data sources, 13–16
 default risk, 117–19
 deflation, 41
 demand and supply shocks, 17–18, 19
 deposit insurance, 187–90, 227–8
 depository institutions, 36–7, 71, 187, 216
 CAMELS system, 194–5
 capital asset requirements, 192–4
 deregulation, 182, 226
 Deregulation and Monetary Control Act (1980), 226, 238
 devaluation, 149
 direct finance, 65–6
 direct markets, 84
 discount window, 253
 discretion, 351–2
 disintermediation, 22–3, 81, 225
 Dodd–Frank Wall Street Reform and Consumer Protection Act (2010), 82, 198, 229
 dollar, 31
 exchange rates, 137, 138–44
 dual mandate, 336, 339–45
 dualistic systems, 172
- e-cash, 40
 eChecks, 40
 econometric modeling, 111, 345
 Lucas Critique, 353–4
 time inconsistency, 354–7
 economic structure, 18–19
 Employment Act (1946), 223, 334, 371, 373
 exchange rates, 137–45
 devaluation, 149
 fixed, 146–50, 224
 flexible, 150
 interest rates and, 143–5
- Fannie Mae & Freddie Mac (F&F), 25, 202, 229, 386–9
 Federal Deposit Insurance Corporation, 38
 federal funds, 66
 Federal Home Loan Bank Board, 227
 Federal Housing Finance Agency, 171
 Federal Open Market Committee (FOMC), 251, 340, 370
 monetary policy and, 340–4
 transparency, 345–7
 Federal Reserve, 5, 72, 113, 160, 169, 171, 172, 179, 182, 191, 202, 203–5, 219, 220, 222
 Great Depression and, 22
 Great Recession and, 25
 history
 1913 to 1920, 364–6
 1920 to 1941, 366–7
 1979 to 1985, 376–8
 1987 to 2006, 378–9
 2001 to 2004, 385–6
 2007 to present, 389–94
 Great Inflation, 372–6
 independence, 255–6
 inflation target, 330
 money supply and, 259–61
 ownership, 238
 power distribution, 254–5
 regulatory role, 203–5, 222, 229–30
 role in Great Depression, 367–70
 structure, 251–4
 advisory committees, 253
 Board of Governors, 251
 Federal Open Market Committee (FOMC), 251–2
 Federal Reserve Banks, 252–3
 Financial Stability Oversight Council, 171, 230
 redesign, 370–2
 tactical policy, 345–7
 targets, 334, 339
 Federal Reserve Act (1913), 217, 218
 Federal Reserve Bank of Cleveland, 111
 Federal Reserve Bank of New York, 253, 341, 366
 Federal Reserve Economic Data (FRED), 14
 Federal Reserve note, 160
 Federal Savings and Loan Insurance Corporation, 190, 227
 fiat money, 49, 160, 240
 fiat systems, 48
 fiduciary-based system, 48
 financial and monetary regime
 economic performance and, 19–20
 Financial Crisis Inquiry Committee's Report, 201
 financial institutions sector, 57, 60, 73
 financial liberalization, 381, 382, 389
 financial markets, 58
 financial sector, 5–6, 97
 Financial Services Modernization Act (1999), 227
 Financial Stability Oversight Council, 171, 230
 financial system, 57–8
 definition and functions, 4
 flow of funds approach, 58–9
 in terms of surplus, deficit and balanced sectors, 63–5
 First Bank of the United States, 212

- fiscal policy
 - Classical period, 320–1
 - Keynesian period, 321–2
 - targets, 333–4
- Fisher relationship, 106, 107, 109, 111, 119, 129
- Fisher, Irving, 106
- Fitch Group, 200
- fixed payment loans, 84
- foreign exchange markets, 136–7, 138. *See also*
 - exchange rates
 - central bank intervention, 145–6
- forgiveness and forbearance, 177
- forward guidance, 287, 341
- fractional reserve systems, 48
- Freddie Mac, 25, 202, 229, 386
- free banking, 215
- Free Banking Act (Michigan), 212, 213
- Friedman, Milton, 21, 176, 182, 226, 303, 308, 368
- Full Employment and Balanced Growth Act (1978), 225, 227, 375
- General Agreement on Tariffs and Trade (GATT), 147
- Germany, 26–7, 187
- gold, 48, 161, 367
- gold standard, 146, 374
- Gone With the Wind*, 161
- Government Accounting Office, 190
- government debt, 179
- government deficit spending, 98–9
- government sector, 59, 60
- government-sponsored enterprise (GSE), 281
- Great Contraction, 366, 368
- Great Depression, 20–2, 26–7, 80, 146, 160, 180, 182, 221, 298, 366–7
 - period prior to, 364–6
 - role of Federal Reserve, 367–70
- Great Inflation, 22–3, 42, 122, 223–5, 248, 249, 372–6
- Great Recession, 23–5, 38, 179, 228, 242, 389–94
 - causes, 363–82
 - real estate bubble, 24–5, 384–5
- Greenspan, Alan, 247, 251, 287, 346
- Gresham, Thomas, 159
- Gresham's law, 159
- gross domestic product (GDP), 151
 - foreign exchange and, 151–3
 - gap, 7–8, 12
 - inflation and, 347–50
 - nominal or market, 7
 - potential, 7
 - real, 7
 - unemployment rate and, 12, 309
- Hayek, Frederick von, 182, 226
- health insurance, 198
- Hegel, George F., 209
- high-powered money, 50, 260
- Hitler, Adolf, 26–7
- homeownership, 179, 202, 386–9
- house prices, 23–5
- household sector, 59, 60, 73
- housing bubble, 24–5, 202, 204, 228–9, 386–9
- housing sector, 179
- Hunt brothers scandal, 376
- hyperinflation, 26, 111
 - impact lag, 326, 327
 - income effect, 114
 - income tax, 44, 120
 - indirect finance, 57, 70, 185
 - fixed payment loans, 84
 - government regulation, 186–7
 - industry perspective problem, 241
 - inflation, 41, 224
 - central bank policy and, 324–6
 - economic output and, 323
 - expected, 109–10, 355–6
 - yield curve and, 128–30
 - GDP and, 347–50
 - Germany after WWI, 26
 - hyperinflation, 26, 111
 - targets, 330–4
 - outcomes, 332
 - rationale, 332
 - unemployment and, 304–6
 - United States, 23
 - inflation gap, 347
 - innovation
 - market, 208
 - regulatory, 207–8
 - inside lag, 326
 - insurance
 - deposit, 187–90, 227–8
 - life, 72
 - moral hazard, 177–8
 - state-based regulation, 196–9
 - interest rate risk, 89
 - interest rates, 57, 75–6, 79–80
 - exchange rates and, 143–5
 - interplay between financial and real sectors, 6
 - levels, 92–3
 - liquidity and, 115
 - loanable funds approach, 94–5
 - demand, 97–9
 - examples, 99–102
 - supply, 95–7
 - monetary policy and, 112, 115
 - money supply and, 269
 - negative, 111–12
 - regulation, 80–2
 - structure, 115
 - default risk, 117–19
 - liquidity effect, 119–20
 - maturity, 121–2
 - yield curve shape, 122–4
 - taxation and, 120–1
 - International Monetary Fund (IMF), 147
 - international reserves, 145
 - international sector, 60
 - Internet, 96
 - Interstate Banking and Branching Efficiency Act (1994), 227
 - inverted pyramid systems, 49–51, 164–8, 236, 258–67
 - investment institutions, 72
 - Iranian hostage crisis, 225, 376
 - irrational exuberance, 228, 287
 - Japan, 27–9, 80, 159, 187, 217–18, 236, 247–8, 381

- k% rule, 350, 352
 Kahn, George A., 350
 Keynes, John Maynard, 51, 181, 219–20, 295, 301, 329
 Keynesian economics, 181, 182
 contribution to economic distress, 300–1
 fiscal policy, 321–2
 macroeconomic model, 298–302
- labor force, 9
 Labor, Department of, 13–14
 Lehman Brothers, 23–4, 198, 384
 Lend Lease Act (1939), 21
 Lesson, Robert, 350
 life insurance, 72
 liquidity, 32–3
 interest rates and, 115, 119–20
 liquidity effect, 114
 liquidity premium effect, 119
 liquidity premium hypothesis, 125
 Livingston Survey, 109–10
 low-information voters, 3
 Lucas Critique, 353–4
 responses, 357–8
 Lucas, Robert, 353
- M1 monetary measure, 34–7, 39
 M2 monetary measure, 37–8, 39, 237, 273, 392
 multiplier, 275–7
 M3 monetary measure, 39
 Mackay, Charles, 382
 macroeconomic models, 295
 Classical, 296–8
 Keynesian, 298–302
 monetarist, 299–303
 rationale and importance, 295–303
 macroprudential policy, 242, 255
 macroprudential regulation, 333
 market failure view of government, 180
 Martin, McChesney, 371, 373
 Marx, Karl, 209
 maturity, 115
 McKinley, William, 162
 Meiji Restoration, 169, 217, 236
 menu cost, 325
 Michigan, 212
 microloans, 96
 microprudential regulation, 242, 255, 333
 Miller, William, 375
 Minsky, Hyman, 383–4
 misery index, 308
 Modigliani, Franco, 302
 monetarist–Keynesian debate, 52, 299–303, 335, 368, 380
 monetary aggregates, 34–6
 monetary policy, 241–2, 322
 Federal Reserve, 345–7
 general tools, 281–6
 interest on excess reserves, 285–6
 open market operations, 281–2
 Great Depression and, 21
 instruments, 287, 294
 interest rates and, 97, 112, 115
 lag, 326–9
 moral suasion, 286–7
 tactical, 339–40
 Federal Open Market Committee, 340–4
 monetary standards, 45–7
 money
 functional concept, 31–2
 as medium of exchange, 32
 as unit of account, 31–2
 general concept, 31
 measurement, 33–7
 quantity theory of, 51, 57, 113, 159
 value of, 41–2
 money markets
 funds, 37–8, 198–9
 instruments, 66
 interest rates, 92–3
 money multipliers, 264
 M2, 275–7
 money supply, 39, 267–74
 other measures, 38
 politicization, 179–80
 money supply problem, 167–8
 Moody's Investor Services, 200
 moral hazard, 176–8
 moral suasion, 286–7
 Morgenthau, Henry, 369
 mortgage-backed bonds, 197
 mortgages, 386–9
 adjustable rate (ARM), 57, 76–7
 subprime, 386–9
 municipal securities, 120
Music Man, 19–20
- National Bank Act (1863), 196, 215
 national banking system, 236
 National Bureau of Economic Research (NBER), 15–16
 National Credit Union Administration, 171
 National Monetary Commission, 217
 natural unemployment rate hypothesis, 308
 Neoclassical economics, 299–303
 monetary policy, 323–4
 Neo-Keynesian economics, 329–30
 New Deal, 20, 220, 368
 New Economic Policy, 373, 374
 new product bias, 43
 New York Times, 86
 Nixon, Richard, 247, 374
 nominal interest rate, 113
 nondepository financial institutions, 71, 72
 NOW accounts, 36, 81, 209, 210
- Okun's Law, 12
 open market operations, 281–2, 343
 outlet bias, 43
 output gap, 347, 391
 outside lag, 326
- paper total return, 90
 peer-to-peer lending, 96
 Pew Research Center, 179
 Phelps, Edmund, 308
 Phillips curve, 223, 301, 303–6, 323, 373
 disappearance, 306–13
 long-run, 309

400

Phillips curve (*cont.*)
 new
 policy implications, 313–14
 Phillips, A. W., 303–4
 present value equation, 84
 price anticipations effect, 114
 price indices, 12–13
 price levels, 41, 42
 price stability, 324–6, 339
 primacy of, 330–4
 prime interest rate, 77
 producer price index (PPI), 12
 Professional Air Traffic Controllers Organization, 378
 Prompt Corrective Action (PCA), 190, 193
 Public Accounting Oversight Board, 228
 public choice, 180–1

quality bias, 43
 quantitative easing, 275, 341, 392–3
 quantity theory of money (QTM), 51, 57, 113, 159

Reagan, Ronald, 377–8
 real interest rate, 113
 real sector, 5
 real value, 41
 recognition lag, 326
 regulation, 4
 extended rationales, 172–7
 failure, 176–81
 indirect finance, 186–7
 reserve requirements, 190–2
 influence of economic theory, 181–2
 innovation, 207–8, 217
 insurance industry, 196–9
 interest rates, 80–2
 politicization of money supply, 179–80
 public choice, 180–1
 role of central banks, 240–2
 role of Federal Reserve, 222
 Regulation Q, 22–3, 81, 208, 224, 227, 374, 375, 376
 regulatory market dialectic, 209
 representative commodity standard, 46
 repurchase agreements, 66
 Reserve Bank of New Zealand, 330
 reserve requirements, 190–2
 retail funds, 38
 retail sweep programs, 191
 Ricardo, David, 241
 Riegle–Neal Interstate Banking and Branching Efficiency Act (1994), 227
 Riksbank of Sweden, 330
 risk, 97
 risk–return tradeoff, 68
 Roosevelt, Franklin D., 220
 rules versus discretion debate, 350, 351–3

Samuelson, Paul, 305
 Sarbanes–Oxley Act (2002), 228
 savings and loan (S&L) crisis, 36, 178, 301, 376–7
 savings banks, 37
 savings deposits, 37
 Say, J. B., 296
 Say’s law of markets, 296, 301, 313

Index

Schwartz, Anna Jacobson, 21, 368
 Second Bank of the United States, 212
Secrets of the Temple, 249
 securities
 default risk, 117–19
 Securities and Exchange Commission, 171, 199
 Big Three, 200
 shocks (demand and supply), 17–18
 shoe leather cost, 325
 simple loans, 83
 Smith, Adam, 178, 296
 Smoot–Hawley tariffs, 367
 social security, 44
 Solow, Robert, 305
 Soviet Union, 7, 80
 special drawing rights (SDRs), 148
 special interests, 208
 stagflation, 301, 306
 Standard & Poor’s (S&P), 200
 state banks, 216
 statement of international transactions (SIT), 132
 current account, 134
 financial account, 134–5
 United States, 132–7
 stock, 32–3
 STRIPS, 87
 Strong, Benjamin, 366
 subprime mortgages, 24–5, 386–9
 substitution bias, 42
 supply shocks, 18, 19

Tableau économique, 295
 tax bracket creep, 325
 tax regulations, 96
 taxation, 44
 capital gains, 386
 income, 44, 120, 269
 interest rates and, 120–1
 Taylor rule, 340, 347–50, 379
 Taylor-type rules, 352
 Taylor, John, 347
 Teal Book, 340
 term structure of interest rates, 115
 The Federal Open Market Committee (FOMC), 335
 time deposits
 small-denomination, 37
 time inconsistency, 354–7
 responses, 357–8
 time series, 14–15
 cycle component, 15
 random component, 17
 seasonal component, 17
 trend component, 14–15
 TIPS, 111
 total return, 90
 trade restrictions, 149
 transactions deposit multiplier, 270
 transparency, 249–50, 344–5
 traveler’s checks, 35–6
 Treasury securities, 116
 Treasury security rate, 77, 78
 Treasury–Federal Reserve Accord, 222
 twin deficits, 153

- U.S. Constitution, 160
- U.S. Treasury, 111, 160
- unemployment rate, 9–12
 - cyclical, 11
 - Federal Reserve target, 335–6
 - frictional, 11
 - GDP gap and (Okun's Law), 12
 - natural, 10–11
 - structural, 11
 - U6, 10–11
 - United States, 23
 - wage inflation and, 304–6
- unionism, 19
- United Kingdom, 304
- United States, 39, 60, 80. *See also* Federal Reserve
 - Civil War, 160, 182, 215
 - current account deficits, 151, 155
 - direct financial markets, 68
 - economic instability, 20–5
 - Great Depression, 20–2
 - Great Inflation, 22–3
 - Great Recession, 23–5
 - government agencies, 170–3
 - history of financial and monetary regime, 211–16
 - 1776 to 1863, 212–15
 - 1863 to 1913, 215–17
 - 1913 to 1929, 217–19
 - 1929 to 1965, 219–23
 - 1965 to 1981, 223–5
 - major events, 213
 - interest rates, 79
 - regulation, 80
- legislation
 - Affordable Care Act (2011), 3, 198
 - Coinage Act (1792), viii, 161
 - Community Reinvestment Act (1977), 175
 - Competitive Equality in Banking Act (1987), 227
 - Deregulation and Monetary Control Act (1980), 226, 238
 - Dodd–Frank Wall Street Reform and Consumer Protection Act (2010), 82, 198, 229
 - Employment Act (1946), 223, 334, 371, 373
 - Federal Reserve Act (1913), 217, 218
 - Gramm–Leach–Bliley Financial Services Modernization Act (1999), 227
 - National Bank Act (1863), 196, 215
 - Riegle–Neal Interstate Banking and Branching Efficiency Act (1994), 227
 - Sarbanes–Oxley Act (2002), 228
 - Wall Street Reform and Consumer Protection Act (2010), 82, 198, 229
 - money supply, 160
 - statement of international transactions (SIT), 132–7
 - unemployment rate, 23
- usury, 79
- Versailles, Treaty of, 26
- Volcker, Paul, 346, 375, 376, 377–8
- Wall Street Journal, 85–6
- Wall Street Reform and Consumer Protection Act (2010), 82, 198, 229
- Whaples, Robert, 369
- wildcat banking, 215
- Wilson, Woodrow, 169, 217
- Wizard of Oz*, 161, 163
- Wonderful Wizard of Oz*, 161
- World Bank, 147
- WWI, 365
 - German reparations for, 26
- WWII, 21, 146, 221, 366
- Yellen, Janet, 255, 287, 341
- yen, 137, 138–44
- yield, 90
- yield curves, 121–2
 - business cycle and, 130, 132
 - expected inflation and, 128–30
 - liquidity premium hypothesis, 125–8
 - shape, 122–4
 - unbiased expectations hypothesis, 122–4
- yield to maturity, 83
- zero coupon, 84
- ZIRP, 389–90