

Contents

	<i>Preface to the Second Edition, 1989</i>	ix
	<i>Preface to the First Edition, 1975</i>	xiii
	<i>Acknowledgements</i>	xvi
I.	The Nature of Markets	1
	Summary	1
1.	Market Structure	2
2.	Determination of the Size of the Spread	6
3.	Price Adjustments	11
4.	Market Existence: Success or Failure?	19
5.	Money and Markets: What is the Best Approach?	22
II.	The Role of Money	24
	Summary	24
1.	Certainty and Uncertainty	25
2.	Money, Information and Markets	29
3.	What Makes Currency Serve as Money?	34
4.	Bank Deposits, Cheque Payments and the Definition of Money	38
5.	Alternative Currencies	44
III.	Micro-Economic Foundations of the Demand for Money	51
	Summary	51
1.	The Transactions Demand for Money	52
2.	Asset Price Uncertainty and the Speculative Demand for Money	63
3.	Buffer-stock Models of Money Holding	75
IV.	Macro-Economic Analysis of the Demand for Money	82
	Summary	82
1.	The Transition from Micro- to Macro-studies of the Demand for Money	83
2.	The Progressive Collapse of Stability in the Demand-for-Money Function	95
V.	The Principles of Intermediation	104
	Summary	104
1.	The Role of the Intermediary – 1	105
2.	The Role of the Intermediary – 2	113
3.	Banks and OFIs: Differences and Similarities	121

VI.	Controlling the Supply of Money: A Problem for the Authorities?	129
	Summary	129
1.	Multiplier Analysis?	130
2.	Government Finance and Open-market Operations	137
3.	Competition with the Private Sector	145
4.	Complications and Conclusions	153
VII.	Credit Rationing	156
	Summary	156
1.	Credit Control	157
2.	Disequilibrium Rationing	163
3.	Equilibrium Rationing	168
VIII.	Why Do Banks Need a Central Bank?	176
	Summary	176
1.	The Central Bank as Organiser of the 'Club' of Commercial Banks	177
2.	Banks' Twin Functions in Providing Both Payments and Portfolio Management Services	181
3.	Bank Portfolios and Central Bank Support	188
IX.	Financial Regulation	194
	Summary	194
1.	The General Theoretical Critique of Regulation	195
2.	The Economic Argument for Regulation	202
X.	The Determination of Interest Rates	214
	Summary	214
1.	Practical Issues	215
2.	Theory	222
3.	The Demand for Money and the Demand for Credit	227
	Appendix: Monetary Base Control: The Examples of Switzerland, and of the USA in 1979-82	234
XI.	The Term Structure of Interest Rates	238
	Summary	238
1.	The Theory of the Term Structure	239
2.	Empirical Studies of the Term Structure of Interest Rates	251
3.	Rational Expectations and the Term Structure	255
XII.	The Transmission Mechanism of Monetary Policy	263
	Summary	263
1.	The Keynesian (<i>IS/LM</i>) Framework	264
2.	The Monetarist Counter-offensive	274
3.	Buffer-stock Money	281
4.	Wealth Effects	285

XIII.	The Effects of Nominal Monetary Changes on Output, Employment and Inflation	292
	Summary	292
1.	Uncertainty, Unemployment and Price Expectations	294
2.	Rational Expectations and Policy Impotence	303
	Appendix: UK Indexed Gilts: A Case Study of Financial Indexation	316
	1. Why Academics and Central Bankers Hold Different Views	316
	2. The UK Experience, 1970s and 1980s	321
XIV.	Monetary Policy – 1: The Use of Policy Instruments in an Uncertain World	328
	Summary	328
1.	Objectives and Instruments	329
2.	Policy Under Uncertainty – 1: Random Disturbances	338
3.	Policy Under Uncertainty – 2: When the Structure of the System is Not Known	349
XV.	Monetary Policy – 2: Rules versus Discretion	353
	Summary	353
1.	The Historical Record, 1973–9	354
2.	Rules versus Discretion	361
3.	The Historical Record, 1979–87	369
4.	Whither Now?	380
XVI.	The Regional Adjustment Process	385
	Summary	385
1.	Financing Current Account Imbalances: The Capital Account	386
2.	Adjustment to a Current Account Imbalance	392
	Appendix: A Framework for the Analysis of Inter-regional Adjustment	404
XVII.	International Monetary Relations – 1: Exchange Rate Regimes	416
	Summary	416
1.	Optimal Currency Areas	417
2.	Monetary Relationships Between Currency Areas	428
XVIII.	International Monetary Relations – 2: The Turbulent Float	438
	Summary	438
1.	The Experience of Floating Exchange Rates Since 1973	439
2.	Why Were Flexible Rates so Unstable?	444
3.	Attempts to Establish a More Stable Regime	452
	<i>Bibliography</i>	458
	<i>Index</i>	483