

# MONEY AND BANKING

## INTRODUCTION: FINANCIAL SYSTEM

Gu, Xin

School of Finance  
Zhejiang Gongshang University

# OUTLINE

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- Office: Room 840, School of Finance, the Main Executive Building.
- The course web site is <https://github.com/richardgu26zh/Money-and-Banking-Fall-Semester-2018>.

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- **Any student that is absent from the lectures for more than 6 times is not allowed to take the final exam, or make-up exam in the next semester.**

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- Emergency cases have to go through the procedure: a sick leave should be verified by official document from hospitals **within a week**, any leave more than three weeks should be verified by Dean of the faculty (if you were business major, School of Management should provide an official statement about your reason to take such a long leave). In the latter case, the statement should be submitted to Room 840 within a week as well.

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- The registry of the attendance starts 5 minutes before the lecture. If you told me "I just a few second late", you can choose to be "a few seconds" early in the class.

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- Instructors would ask students to bring the reading notes to the classes. Anyone's reading notes that fails to submit as required is graded zero.

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- Homework should be WRITTEN with BLUE or BLACK PENS, but PENCIL.
- Any student is not allowed to submit the assignments after the deadline. NO EXCUSES.

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- Strongly suggest you to have a textbook for two reasons. First, you need it for reading notes (it is 20% of your total score). Second, you need it for final review.

# CONNECTIONS WITH WHAT WE HAVE LEARNED

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- How do you define *economics* in your own words?
- Rational agents optimize their decisions given resource constraints.
- In *Macroeconomics*, we study the optimization of households, producers, and government decision jointly.

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- It includes such elements as *payment systems, credit information bureaus and collateral registries*. It also includes legal and regulatory framework for financial sector operations.

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- Major investment banks around the world include Barclays, Bank of America Merrill Lynch, Goldman Sachs, Deutsche Bank, Morgan Stanley, UBS, Credit Suisse, and Citibank.

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- The world most influential central banks are the Federal Reserve (U.S.A), the People's Bank of China, the European Central Bank, and Bank of Japan.

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- Securities Exchange Committee, on the other hand, oversees securities markets.
- It puzzles many that why financial system is probably the most regulated sector in the economy. To answer this question, we need to investigate the importance of financial system.

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  - ② debt investors - fixed interest rates periodically and lump-sum repayment at maturity date (either bank loans or bonds).

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- Indirect finance - banks which grants you business loans.



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- When you in an attempt to raise funds by your own, you will acknowledge the time and energy that you need to invest in this financing process.

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- For example, Lee prefers a fixed interest rate of 6% per year; Richy might like 5,000 RMB to become an owner, although you don't think he knows anything about computer stuff.
- By comparison, we find out that raising funds through financial intermediaries is time-saving. What more does financial system do for us?

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- It is very likely to have a QR code for customers to buy a computer in your store.
- Besides, you don't need to line up in banks to buy mutual funds or fund wire.

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- Banks, in this case, pool funds from various entities (e.g., households and corporations), and then to distribute to units which are in need.

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- e.g. insurance companies and pension funds would give investors contingency payment and retirement annuities.



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- If you wanted to sell it quickly, you would choose investment banks, for instance.



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- It is a typical problem in economics, known as **asymmetric information**.

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- For more readings, please consult Bodie, Z, and Merton, R.C. (1995). *A Conceptual Framework for Analyzing the Financial System*, Chapter 1 to 8, Harvard Business School Press.

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- Decisions of the central bank are implemented by *monetary policy tools*, and generate influence on the economy through *monetary transmission channels*.

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- In *Understanding Interest Rates*, we will introduce a *plain vanilla bond*, interest rate measurement - *yield to maturity*, techniques of *present value*, and *calculation of rate of return*.