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**PRACTICAL APPROACH TOWARDS MONEY AND
CAPITAL MARKET**

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INTRODUCTION

The money market is the global financial market for short-term borrowing and lending. It provides short-term liquid funding for the global financial system. The money market is a sector of the capital market where short-term obligations such as Treasury bills, commercial paper and bankers' acceptances are bought and sold.

A money market consists of financial institutions and dealers in money or credit who wish to either borrow or lend. Participants borrow and lend for short periods of time, typically up to thirteen months. Money market trades in short term financial instrument commonly called "paper". This contrasts with the capital market for longer-term funding, which is supplied by bonds and equity.

Money is a medium of exchange which ensures the success of exchange by being the one item on offer that is ALWAYS acceptable. Money is necessary because human beings must exchange to live together in peace, and to prosper. How important was the discovery of the idea of money? Look around you.

That covers the concept or idea of money. But an idea, as such, does not exist as a physical entity. Money must be a physical entity. Neither the "electronic" money of today nor the notes and coin which circulate as cash has any official or legal connection with Gold and Silver. But they once did, and most people think that they still do. As long as that situation persists, the modern monetary system will function.

Now, how does one go about choosing what is to be used as money? Simple, one looks for the most tradable good, the good which is in highest demand, the good that has begun to be accepted, not as an end in it, but as a means to an end. Money is the good that people do not want to consume, but want to use to make further exchanges easier. Human beings have lived together for more than two million years. Money in its modern form - coin of fixed weight and denomination - came into use less than three thousand years ago. It took a long time to discover the physical good which best serves the purpose of a medium of exchange.

Money can be use as direct exchange, or barter, is exactly that - my good or service for your good or service. The problem is that I might want what you have to offer, but you might not want what I offer in exchange. With no "medium" of exchange, there is no deal. Indirect exchange takes place when one party has a "medium" that is always acceptable, not for what it is, but for what can be done with it. If you offer me money, I will accept it, because I know that I can exchange it for what I want, whenever I want it.

Money is defined as any asset that is acceptable as a medium of exchange in payment for goods and services.

INTRODUCTION

Now there is what we called the narrow and broad money which is defined as M0 (Narrow money) - comprises notes and coins in circulation banks' operational balances at the Bank of England. Over 99% of M0 is made up of notes and coins as cash is used mainly as a medium of exchange.

Most economists believe that changes in M0 have little effect on total national output and inflation. At best M0 is seen as a co-incident indicator of consumer spending and retail sales. M0 reflects changes in the economic cycle, but does not cause them.

M4 (Broad money) includes deposits saved with banks and building societies and money created by lending in the form of loans and overdrafts. $M4 = M0$ plus sight (current accounts) and time deposits (savings accounts). When a bank or another lender grants a loan to a customer, bank liabilities and assets raise by the same amount and so does the money supply.

The capital market (securities market) is the market for securities, where companies and the government can raise long-term funds. The capital market includes the stock market and the bond market. Financial regulators, such as the U.S. Securities and Exchange Commission, oversee the capital markets in their respective countries to ensure that investors are protected against fraud. The capital markets consist of the primary market, where new issues are distributed to investors, and the secondary market, where existing securities are traded.

A security is a fungible, negotiable instrument representing financial value. Securities are broadly categorized into debt and equity securities such as bonds and common stocks, respectively. The company or other entity issuing the security is called the issuer. What specifically qualifies as a security is dependent on the regulatory structure in a country. For example private investment pools may have some features of securities, but they may not be registered or regulated as such if they meet various restrictions.

Securities may be represented by a certificate or, more typically, by an electronic book entry. Certificates may be bearer, meaning they entitle the holder to rights under the security merely by holding the security, or registered, meaning they entitle the holder to rights only if he or she appears on a security register maintained by the issuer or an intermediary.

They include shares of corporate stock or mutual funds, bonds issued by corporations or governmental agencies, stock options or other options, limited partnership units, and various other formal investment instruments that are negotiable and fungible.

DISCRIPTION

MONEY

Money is the generally recognized means of payment with which any goods and services offered on the market can be acquired. The State declares the national money to be the statutory means of payment (currency): everyone is obliged to accept it as payment for services. As a unit of account or measure of value money permits goods to be compared by price, which is expressed in monetary units.

Money" means a medium of exchange authorized or adopted by a domestic or foreign government and includes a monetary unit of account established by an intergovernmental organization or by agreement between 2 or more nations 1993, c. 293, Pt. B, §2 (amd). In the Shadow World, most advanced cultures use a gold/silver/bronze/copper/tin coinage, each coin being worth about 1/10th of the denomination preceding (e.g., a silver piece is equal to ten bronze pieces). Each coin weighs around a half-ounce. As a very rough comparison, one bronze piece would be about equivalent to a dollar in terms of buying power.

A symbolic representation of wealth Used for exchange in place of actual products or services, although Satie certainly knew periods of dire poverty, and was perhaps a little uncontrollable in his spending, in long periods of his life he had few worries in this sense. Although maybe not having much money in his pockets, he was (certainly from the second decade of the new century) often invited to expensive restaurants and to all sorts of events, and was given financial help, by all sorts of people.

Economists tend to define money as anything readily acceptable as means of payment. Usually this means notes, coins and bank deposits. However, one Authority says it is "an extremely difficult concept to define with precision." The supply of money comes under any number of definitions. M0 is notes and coins in circulation plus banks' deposits held in the Reserve Bank. M1 is the total of cash and current account deposits at any given time.

Anything that serves as a generally accepted medium of exchange a standard of value and a means to save or store purchasing power In the United States, currency (the bulk of which is Federal Reserve notes), coin and funds in checking and similar accounts at depository institutions are examples of money.

No money was exchanged in the doll games. Dolls scavenged, stole, and crafted their own goods in the subsistence economies of pirate ship, outlaw den, Desert Island and orphanage. The coins discovered in one of many faux-leather purses dating from the late decadent period have, however, led to some speculation that Doll Games' growing interest in realism and material goods might eventually have led to a monetary system, had the games continued long enough.

DISCRIPTION

This is the equivalent of all the goods and services of a collective Instrument of capitalisation and mobilisation of value and as instrument of release of debts and obligations. The official currency of the Republic of Croatia is the Kuna, which has 100 Lipa. Foreign currency may be exchanged in banks, exchange offices and post offices in accordance with the valid exchange rate. All major credit cards (American Express, Diners, Visa, and Eurocard/Mastercard) and Eurocheques (after being changed in banks) are accepted.

Money (That's What I Want)" is a 1959 hit single by Barrett Strong for the Tamla label, distributed by Anna Records. The song was written by Tamla founder Berry Gordy and Janie Bradford, and would become the first hit record for Gordy's label, soon to be renamed Motown.

KMFDM's sixth album, Money, was released in 1992. Originally the album was supposed to be called apart, as Sascha Konietzko and En Esch would break up during the tour with Thrill Kill Kult in 1990. With the budget split in half, Sascha and En Esch made five songs each for the album. However, En Esch's half was rejected by Wax Trax! Records. The record company gave them more money and Sascha finished the album by including new remixes of previously released material.

Money is any marketable good or token used by a society as a store of value, a medium of exchange, or a unit of account. Money objects can meet some or all of these needs. Since the needs arise naturally, societies organically create a money object when none exists. In other cases, a central authority creates a money object; this is more frequently the case in modern societies with paper money.

The most common medium of exchange; functions as legal tender; "we tried to collect the money he owed us" Wealth reckoned in terms of money; all his money is in real estate the official currency issued by a government or national bank; "he changed his money into francs.

CPITAL MARKET

The market in which corporate equity and longer-term debt securities (those maturing in more than one year) are issued and traded. A financial market in which long-term debt obligations and equity securities are bought and sold, and all financial transactions between users of funds and suppliers of funds.

A market for medium to long-term financial instruments, financial instruments traded in the capital market include shares, and bonds issued by the Australian Government, State governments, corporate borrowers and financial institutions.

The capital market is the market for long-term loans and equity capital. Companies and the government can raise funds for long-term investments via the capital market.

DISCRIPTION

The capital market includes the stock market, the bond market, and the primary market. Securities trading on organized capital markets are monitored by the government; new issues are approved by authorities of financial supervision and monitored by participating banks.

This market brings together all the providers and users of capital. Financial products such as stocks, bonds, mutual funds, and insurance make the transfer of capital possible. Financial intermediaries, such as banks, brokerage firms, and insurance companies facilitate the transfer of capital.

There are two broad types of securities traded in the capital market: debt and equity. Buying stock allows investors to gain an equity interest in the company and become part owner. When investors buy bonds, they essentially loan money to the company or government that issued the bond and become creditors of that issuer.

A broad term covering the arrangements for financial investment, the buying and selling of shares, and the procurement of loans, Such markets may not necessarily have a physical presence, although the buying and selling of shares usually does, e.g. through the Stock Exchange located in the City of London.

A market for medium to long-term financial instruments, financial instruments traded in the capital market include shares, and bonds issued by the Australian Government, State governments, corporate borrowers and financial institutions. Capital market is the broad term for the market where investment products such as stocks and bonds are bought and sold. It includes all the people and organizations which support the process.

The market where capital funds debts and equity is traded; includes medium and long term securities; distinct of money market which is for short term investments. The market for long-term funds Instruments are equity and credit market securities with original maturity greater than 1 year. Credit market securities consist of bonds and bank loans. The various institutions concerned with raising funds and sharing and insuring risks, including banks, insurance markets, bond markets, and the stock market.

CHARACTERISTICS OF MONEY

1. **Scarcity**, money should be scarce enough to have some value but not so scarce to be unavailable, Pebbles, which meet some of the other criteria, would not work well as money because they are widely available and too much money in circulation increases prices, that's inflation. Government control the scarcity of money by limiting the quantity of money produced.
2. **Durability**, any item used as money must be durable, a perishable item such as banana becomes useless as money when it spoils.

DISCRIPTION

Even early societies used durable forms of money, such as metal coins and paper money that lasted for a long time.

3. **Portability**, money must be portable and easily to be moved around, large or bulky items such as boulders or heavy gold bars, cannot be transported easily from place to place.
4. **Divisibility**, money must be capable of being divided into smaller parts and the divisible forms of money help make possible transactions of all sizes and amount.

FUNCTIONS OF MONEY

a. Medium of Exchange is an intermediary used in trade to avoid the inconveniences of a pure barter system. In a barter system, there must be a coincidence of wants before two people can trade - they must want exactly what the other has to offer, when and where it is offered, so that the exchange can occur. A medium of exchange permits the value of a good to be assessed and rendered in terms of the intermediary, most often, a form of money widely accepted to buy any other good. Money is also a form of transportability, divisibility, high market value in relation to volume and weight, recognizability and resistance to counterfeiting

A medium of exchange makes transaction easier; having a common form of payment in each country is much less complicated than having a barter system where goods and service are exchange for other goods and service. Money allows the exchange of products to be a simple process

b. A unit of account is a standard monetary unit of measurement of the market value/cost of goods, services, or assets. It is one of three well-known functions of money. It lends meaning to profits, losses, liability, or assets. The accounting monetary unit of account suffers from the pitfall of not being necessarily a stable unit of account over time.

A standard unit of account allows meaningful interpretation of prices, costs, and profits, so that an entity can monitor its own performance and its shareholders can make sense of its past performance and have an idea of its future profitability. In modern economies, money in the form of currency usually serves the role of the standard unit of account. The use of money, under conditions of price stability, vastly improves the efficiency of market economies. The use of a unit of account in financial accounting allows investors to invest capital into those companies that provide the highest rates of return. The use of a unit of account in managerial accounting enables firms to choose between activities that yield the highest profit.

DISCRIPTION

In economics, a standard unit of account is used for statistical purposes to describe economic activity. Indexes such as GDP and the CPI are so broad in their scope that compiling them would be impossible without a standard unit of account. After being compiled, these figures are often used to guide governmental policy; especially monetary and fiscal policy.

In calculating the opportunity cost of a policy, a standard unit of account allows for the creation of a composite good. A composite good is a theoretical abstraction that represents an aggregation of all other opportunities that are not realized by the first good. It allows an economic decision's benefits to be weighed against the costs of all other possible goods in that society, without having to refer to any directly. Often, this is most easily accomplished with money.

c. To act as a store of value, a commodity, a form of money or financial capital must be able to be reliably saved, stored, and retrieved - and be predictably useful when it is so retrieved. This is distinct from the standard of deferred payment function which requires acceptability to parties one owes a debt to, or the unit of account function which requires fungibility so accounts in any amount can be readily settled. It is also distinct from the medium of exchange function which requires durability when used in trade, and a minimum of opportunity to cheat others.

When currency is stable, money can serve all four functions. When it isn't, such as during times of hyperinflation or when complex and volatile forms of financial capital are involved, it becomes important to identify alternative stores of value, of which common ones are real estate actual deeds in protectible land, gold once the basis of the gold standard, silver once the basis of the silver standard, precious stones, and precious metals, gold backed currencies, e.g. Swiss franc, collectibles, e.g. original art by a famous artist or antiques and livestock.

While these items may be inconvenient to trade daily or store, and may vary in value quite significantly, they rarely or never lose all value. This is the point of any store of value, to impose a natural risk management simply due to inherent stable demand for the underlying asset. It need not be a capital asset at all, merely have economic value that is not known to disappear even in the worst situation. In principle, this could be true of any industrial commodity, but gold and precious metals are generally favored because of their demand and rarity in nature, which reduces the risk of devaluation associated with increased production and supply.

Money act as a store of value which is used to hold wealth, it retains its value over time someone who owns money can keep it for future use rather than exchange it today for other types of assets.

DISCRIPTION

d. Market liquidity is a business, economics or investment term that refers to an asset's ability to be easily converted through an act of buying or selling without causing a significant movement in the price and with minimum loss of value. An act of exchange of a less liquid asset with a more liquid asset is called liquidation. Liquidity also refers both to that quality of a business which enables it to meet its payment obligations, in terms of possessing sufficient liquid assets; and to such assets themselves.

A liquid asset has some or more of the following features. It can be sold rapidly, with minimum loss of value, anytime within market hours. The essential characteristic of a *liquid market* is that there are ready and willing buyers and sellers at all times. An elegant definition of liquidity is also the probability that the next trade is executed at a price equal to the last one. A market may be considered *deeply liquid* if there are ready and willing buyers and sellers in large quantities. This is related to a market depth, where sometimes orders cannot strongly influence prices.

The liquidity of a product can be measured as how often it is bought and sold; this is known as volume. Often investments in liquid markets such as the stock exchange or futures markets are considered to be more liquid than investments such as real estate, based on their ability to be converted quickly. Some assets with liquid secondary markets may be more advantageous to own, are willing to pay a higher price for the asset than for comparable assets without a liquid secondary market. The *liquidity discount* is the reduced promised yield or expected return for such assets, like the difference between newly issued U.S. Treasury bonds compared to off-the-run Treasuries with the same term remaining until maturity. Buyers know that other investors are not willing to buy off-the-run so the newly issued bonds have a lower yield and higher price. Speculators and market makers are key contributors to the liquidity of a market, or asset. Speculators and market makers are individuals or institutions that seek to profit from anticipated increases or decreases in a particular market price. By doing this, they provide the capital needed to facilitate the liquidity. The risk of illiquidity need not apply only to individual investments: whole portfolios are subject to market risk. Financial institutions and asset managers that oversee portfolios are subject to what is called "structural" and "contingent" liquidity risk. Structural liquidity risk, sometimes called funding liquidity risk, is the risk associated with funding asset portfolios in the normal course of business. Contingent liquidity risk is the risk associated with finding additional funds or replacing maturing liabilities under potential, future stressed market conditions. When a central bank tries to influence the liquidity supply of money, this process is known as open market operations.

e. Also money can be seen as the standard of value which as a form of money whose value is accepted by all, goods and services can be priced in standard units. This makes it easy to measure the value of products and allows transactions to be recorded in consistent terms.

DISCRIPTION

g. A standard of deferred payment is the accepted way in a given market to settle a debt. For example, while the gold standard reigned, gold or any currency convertible to gold at a fixed rate constituted such a standard. As of 2003, the US dollar and the Euro are the most generally accepted standards for international settlements. However, for certain kinds of transactions such as for illegal goods like narcotics or weapons, gold or diamonds may be preferred as the medium of exchange there being no recourse in case of counterfeit currency being used and there is rarely any deferral of payment: if there is, it will most likely be stated in dollars.

This is distinct from the store of value function which relates to the saving, storing, and retrieval of value, and from the unit of account function which requires fungibility so accounts in any amount can be readily settled. It is also distinct from the medium of exchange function which requires durability when used in trade, and a minimum of opportunity to cheat others as the diamond or gold example makes obvious. When currency is stable, money can serve all four functions. When it isn't, or when complex and volatile forms of financial capital are involved, it becomes important to identify a single standard of deferred payment to avoid cheating by selecting a denominator of debt that one knows is dropping in value. Historically, there have been many times when creditors have had to hide from debtors to avoid being paid off in near worthless currency. Time-based currency such as Ithaca Hours establishes fixed amounts of human labour as the only standard of deferred payment.

The capital markets can aid clients by devising financial products to raise capital and hedge using interest rate or currency swaps. At many firms, the capital markets group is a liaison function between investment banking and fixed income trading.

The term equity is quite broad but in general refers to the sales and trading functions which cover the following product lines: listed equities, both domestic and international, on the New York Stock Exchange, American Stock Exchange, regional stock exchanges and NASDAQ. Other securities which fall under the equities category are convertible debt securities, warrants, ADR's (American depository receipts), preferred stock, warrants, and equity derivatives.

The term Fixed Income is also quite broad but in general refers to the sales and trading functions which cover the following product lines: U.S. Treasury government bonds, International Government Bonds, Corporate Securities for example, medium term notes, high yield bonds below investment grade, money market instruments these bonds have maturities of usually less than one year, like commercial paper, mortgage and asset backed securities, municipal securities, fixed income listed futures and options e.g. T-bond futures, over-the-counter swaps and options caps, floors and swaptions. The sales and trading responsibilities are similar to the equities section. In each discipline, the degree of the professional's specialization varies across different firms.

DISCRIPTION

For instance, some firms may adopt the fixed income generalist approach where the salesperson sells all product types, from corporate bonds to mortgages. Other firms will have specialists servicing clients for only mortgages or corporate bonds. Financial capital is money used by entrepreneurs and businesses to buy what they need to make their products or provide their services.

Financial capital refers to the funds provided by lenders and investors to businesses to purchase real capital like equipment for producing goods/services. Real capital may include shovels for gravediggers, sewing machines for tailors or machinery for manufacturing firms. Financial capital is provided by lenders for a price: interest. Also see time value of money for a more detailed description of how financial capital may be analyzed. Financial capital, or economic capital, is any liquid medium or mechanism that represents wealth, or other styles of capital. It is, however, usually purchasing power in the form of money available for the production or purchasing of goods, etcetera. Capital can also be obtained by producing more than what is immediately required and saving the surplus.

Liquidity requirements of these vary significantly leading to a diversity of contracts and financial markets to trade them on. When all four functions are served by one instrument, this is called money, which does not need to be traded on financial markets since the risk of loss of value of money is uniform across the whole society. Where no one forms of money is agreed to have reliable value, and barter is undesirable, less liquid or more diverse instruments have served the four functions. This article focuses mostly on financial instruments which are not uniformly affected by native currency inflation and which are not guaranteed by a state.

GENERAL ANALYSIS

Money originated very largely from non-economic causes from tribute as well as from trade, from blood money and bride money as well as from barter, from ceremonial and religious rites as well as from commerce, from ostentatious ornamentation as well as from acting as the common drudge between economic men.

One of the most important improvements over the simplest forms of early barter was the tendency to select one or two items in preference to others so that the preferred items became partly accepted because of their qualities in acting as media of exchange. Commodities were chosen as preferred barter items for a number of reasons some because they were conveniently and easily stored, some because they had high value densities and were easily portable and some because they were durable.

These commodities, being widely desired, would be easy to exchange for others and therefore they came to be accepted as money. To the extent that the disadvantages of barter provided an impetus for the development of money that impetus was purely economic but archaeological, literary and linguistic evidence of the ancient world and the tangible evidence of actual types of primitive money from many countries demonstrate that barter was *not* the main factor in the origins and earliest development of money.

Many societies had laws requiring compensation in some form for crimes of violence, instead of the Old Testament approach of an eye for an eye. The author notes that the word to pay is derived from the Latin *pacare* meaning originally to pacify, appease, or make peace with through the appropriate unit of value customarily acceptable to both sides. A similarly widespread custom was payment for brides in order to compensate the head of the family for the loss of a daughter's services. Rulers have since very ancient times imposed taxes on or exacted tribute from their subjects. Religious obligations might also entail payment of tribute or sacrifices of some kind.

Thus in many societies there was a requirement for a means of payment for blood-money, bride-money, tax or tribute and this gave a great impetus to the spread of money. Objects originally accepted for one purpose were often found to be useful for other non-economic purposes and, because of their growing acceptability began to be used for general trading also, supplementing or replacing barter.

Thus the use of money evolved out of deeply rooted customs; the clumsiness of barter provided an economic impulse but that was not the primary factor. It evolved independently in different parts of the world. About the only civilization that functioned without money was that of the Incas. The invention of banking preceded that of coinage. Banking originated in Ancient Mesopotamia where the royal palaces and temples provided secure places for the safe keeping of grain and other commodities. Receipts came to be used for transfers not only to the original depositors but also to third parties.

GENERAL ANALYSIS

Eventually private houses in Mesopotamia also got involved in these banking operations and laws regulating them were included in the code of Hammurabi. In Egypt too the centralization of harvests in state warehouses also led to the development of a system of banking. Written orders for the withdrawal of separate lots of grain by owners whose crops had been deposited there for safety and convenience, or which had been compulsorily deposited to the credit of the king, soon became used as a more general method of payment of debts to other persons including tax gatherers, priests and traders.

Even after the introduction of coinage these Egyptian grain banks served to reduce the need for precious metals which tended to be reserved for foreign purchases, particularly in connection with military activities. Precious metals, in weighed quantities, were a common form of money in ancient times. The transition to quantities that could be counted rather than weighed came gradually. A History of Money Glyn Davies points out that the words spend, expenditure, and pound as in the main British monetary unit all comes from the Latin *expendere* meaning to weigh.

The basic unit of weight in the Greek speaking world was the "drachma" or "handful" of grain, but the precise weight taken to represent this varied considerably, for example from less than 3 grams in Corinth to more than 6 grams in Aegina. Throughout much of the ancient world the basic unit of money was the stater, meaning literally "balancer" or weigher. The talent is a monetary unit with which we are familiar with from the Parable of the Talents in the Bible. The talent was also a Greek unit of weight, about 60 pounds.

Many primitive forms of money were counted just like coins. Cowrie shells, obtained from some islands in the Indian Ocean, were a very widely used primitive form of money - in fact they were still in use in some parts of the world such as Nigeria within living memory. So important a role did the cowrie play as money in ancient China that its pictograph was adopted in their written language for money. Thus it is not surprising that among the earliest countable metallic money or "coins" were "cowries" made of bronze or copper, in China.

In addition to these metal cowries the Chinese also produced coins in the form of other objects that had long been accepted in their society as money e.g. spades, hoes, and knives. Although there is some dispute over exactly when these developments first took place, the Chinese tool currencies were in general use at about the same time as the earliest European coins and there have been claims that their origins may have been much earlier, possibly as early as the end of the second millennium BC. The use of tool coins developed presumably independently in the West. The ancient Greeks used iron nails as coins, while Julius Caesar regarded the fact that the ancient Britons used sword blades as coins as a sign of their backwardness. However the Britons did also mint true coins before they were conquered by the Romans.

GENERAL ANALYSIS

These quasi coins were all easy to counterfeit and, being made of base metals, of low intrinsic worth and thus not convenient for expensive purchases. True coinage developed in Asia Minor as a result of the practice of the Lydians, of stamping small round pieces of precious metals as a guarantee of their purity. Later, when their metallurgical skills improved and these pieces became more regular in form and weight the seals served as a symbol of both purity and weight. The first real coins were probably minted some time in the period 640 - 630 BC. Afterwards the use of coins spread quickly from Lydia to Ionia, mainland Greece, and Persia.

Strictly speaking, the institutional investors are professional money managers, such as mutual funds, hedge funds, banks, money management firms, pension funds, insurance companies. Generally, a salesperson will cover a number of these companies and will be responsible for relaying information related to the markets to their clients. Most large and regional investment banks (or broker-dealers) will have an established network; the investment bank earns commissions for the trades entered into with or on behalf of their clients.

Many investment banks do not have an established retail investor base. Merrill Lynch, Smith Barney, and Paine Webber are three examples of firms with extensive retail distribution outlets. The clients consist of private individuals who wish to purchase securities for themselves. Again, the investment bank receives a commission for the transactions conducted for their clients. A number of firms cater only to high net worth individuals (e.g. over \$2 million in assets for management). These divisions, in firms like Goldman Sachs and J.P. Morgan, are called "Private Client Services" or "PCS". PCS is discussed in another section.

The trading professionals are responsible for making markets in certain securities, obtaining securities to facilitate the clients' trades and for providing liquidity within the market. Traders often maintain inventory positions overnight and are responsible for the profit and loss associated with holding the inventory. Thus, many times, the trader will engage in overnight hedging to avoid undesired market movements against him/her. An equity derivative is a catchall phrase for a number of equity-related products. They either structured equity products designed to meet a specific objective (an option on a portfolio of stocks designed to mimic a specific industry's performance), an over-the-counter option on a specific stock or a listed option or future (e.g. an option on the S&P 500). This division can also develop portfolio hedges, aid the asset allocation process, and create synthetic equity instruments using other financial products.

Although paper money obviously had no intrinsic value its acceptability originally depended on it's being backed by some commodity, normally precious metals.

GENERAL ANALYSIS

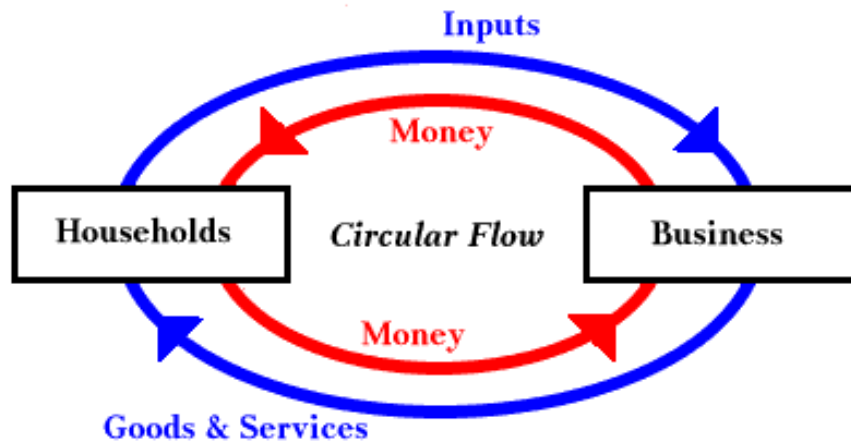
During the Napoleonic Wars convertibility of Bank of England notes was suspended and there was some inflation which, although quite mild compared to that which has occurred in other wars, was worrying to contemporary observers who were used to stable prices and, in accordance with the recommendations of an official enquiry Britain adopted the gold standard for the pound in 1816. For centuries earlier silver had been the standard of value. The pound was originally an amount of silver weighing a pound. France and the United States were in favour of a bimetallic standard and in 1867 an international conference was held in Paris to try and widen the area of common currencies based on coins with standard weights of gold and silver.

However when the various German states merged into a single country in 1871 they chose the gold standard. The Scandinavian countries adopted the gold standard shortly afterwards. France made the switch from bimetallism to gold in 1878 and Japan, which had been on a silver standard, changed in 1897. Finally, in 1900, the United States officially adopted the gold standard. With the outbreak of the First World War in 1914 Britain decided to withdraw gold from internal circulation and other countries also broke the link with gold. Germany returned to the gold standard in 1924 when it introduced a new currency, the Reichsmark and Britain did the following year, and France in 1928. However the British government had fixed the value of sterling at an unsustainably high rate and in the worldwide economic crisis in 1931 Britain, followed by most of the Commonwealth (except Canada) Ireland, Scandinavia, Iraq, Portugal, Thailand, and some South American countries abandoned gold.

The United States kept the link to gold and after the Second World War the US dollar replaced the pound sterling as the key global currency. Other countries fixed their exchange rates against the dollar, the value of which remained defined in terms of gold. In the early 1970s the system of fixed exchange rates started to break down as a result of growing international inflation and the United States abandoned the link with gold in 1973.

ACTUALISATION

Those who believe that money is an important source of economic disturbance emphasize that money enters into all transactions. When people purchase goods, they are selling money, and when merchants sell goods, they are buying money. The **Circular Flow** diagram illustrates that all purchases and sales involve money. The flow of goods, services, and resources moving clockwise is matched by a flow of money circulating counterclockwise.



The flow of money resembles the flow of a river, the amount of water past a point on the bank depends on the amount of water in a cross-section of the river multiplied by the velocity at which that cross section flows. In a similar way, spending in the circular flow can be found as: (1) Amount of Money x Velocity of Circulation = Total Spending Equation 1 is called the equation of exchange and is always true by definition. If an economy had \$5.00 of money, and each dollar was spent four times a month, total monthly spending must be \$20.00.¹

The equation of exchange is a foundation on which the quantity theory of money is built. The quantity theory of money is a theory of the price level. It argues that inflation is caused by rapid increases in the quantity or money in circulation, and that deflation is caused by decreases or very slow increases in the quantity of money in circulation. The equation of exchange and the quantity theory are not identical. The equation of exchange holds by definition. We get the quantity theory only by adding certain assumptions about what is cause and what is effect. The process of making assumptions began in the 16th century with the argument that the inflow of gold and silver from the Americas was causing inflation in Europe.

ACTUALISATION

The conquistadors who followed Columbus to the Americas sent back to Spain large amounts of gold and silver that they obtained from plundering the Aztec and Incan empires and from mining. As this metal was coined, the amount of money in circulation rose, and at the same time prices began a slow, century long rise.

Intellectuals such as John Locke and David Hume refined the quantity theory, but the best early statement comes from an English banker, Henry Thornton, in 1802. In the early 20th century the American economist Irving Fisher popularized the equation of exchange in its mathematical form (though in his version, Fisher separated currency from checking account money, a distinction that no one makes any more). After some years of neglect, basic ideas of the quantity theory saw new life in the 1950s and 1960s under the name monetarism and re-entered mainstream economics.

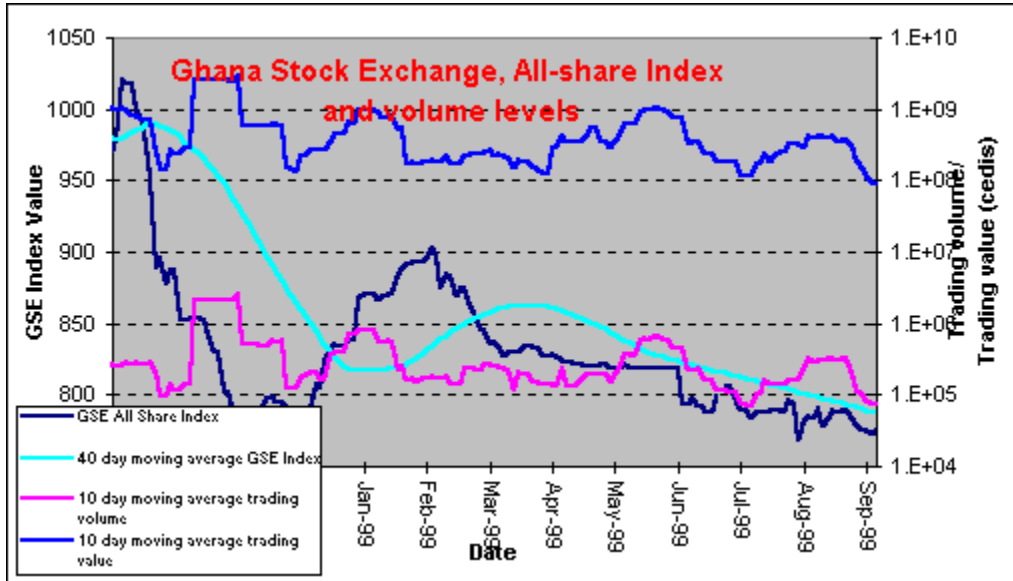
To make the quantity theory work as a theory of price level, one must clearly distinguish between what happens in the long run or in equilibrium, and what can happen in the short run or in the adjustment process. The quantity theory in its original form ignores all adjustment problems, which is a legitimate way to proceed if only the long run is of interest.

Writing in 1802, Henry Thornton clearly states the central tenet of what the quantity theory suggests for equilibrium. An increase in the amount of money, he says, will neither be held idle nor greatly increase the amount of production. Thus There remains no other mode of accounting for the uses to which the additional supply of it can be turned, than that of supposing it to be occupied in carrying on the sales of the same, or nearly the same, quantity of articles as before, at an advanced price the cost of goods being made to bear the same, or nearly the same, proportion to their former cost, which the total quantity of paper at the one period bears to the total quantity at the other.

Thornton implies that total spending is made up of two parts, a price part and a quantity part. One hundred dollars of spending can buy either 25 units of output at \$4.00 each, or 50 units of output at \$2.00 each. In terms of the equation of exchange, this is usually written as: $(2) MV = \text{Spending} = PT$ where P is a price level and T is the number of transactions. If the amount of money in circulation doubles, the quantity theory predicts that, once in equilibrium, the price level will also double (or close to it), and that if the amount of money in circulation is cut in half, the price level will be (about) one half its former value after all adjustments have taken place. An alternative way of viewing this is to recognize that as prices go up, the value of money goes down, or since it takes more dollars to buy things, money is worth less (not worthless, however) than it used to be. The quantity theory states that an increase in the amount of money relative to goods decreases its value, and a decrease in the amount of money relative to goods will increase its value.

ACTUALISATION

Money is thus like any other commodity: increases in supply decrease marginal value.



GSE All-Share Index		
Closing Level	819.14	31 May 99
Previous close	819.14	28 May 99
12 month high	1201.08	6 May 98
12 month low	818.17	7 May 99
All-time high	1201.08	6 May 98
All-time low	55.49	17 May 91

ACTUALISATION

Major movements 1999	
Guinness Ghana Ltd	16.9%
Fan Milk Ltd	13.6%
Ghana Commercial Bank	-23.1%
Accra Brewery Ltd	-23.5%
SSB Ltd	-26.0%

The Exchange has so far performed remarkably well. Even though it is relatively much younger than most of the other African Stock Exchanges it seems to enjoy increasingly more attention and interest. There has been coverage by most of the major electronic and printed media interested in global financial news.

In terms of index performance, the Ghana Stock Exchange was the 6th best performing emerging stock market with capital appreciation modestly put at 116% for 1993. Then in 1994, the Exchange was the best index performing stock market among all the emerging markets gaining 124.3% in its index level. However, in 1995, the index increased by a meager 6.3% due mainly to high levels of inflation and interest rates prevailing in the country during the period. This year there has however, been an improvement.

As at 30th August, 1996, the index has risen by 20% and inflation is falling. The average rate of capital appreciation of 70% per annum since 1990 easily exceeds the annual rate of inflation in Ghana's economy for the period. Steady improvements are being recorded continuously in trade volumes and values. From 1990 to 1992, only 4 million shares at about C350m were traded on the Exchange. However in 1994, alone, 93 million shares worth C73b changed hands. 55 million shares worth C27 billion were traded in 1995. This year, so far 24.2 million shares worth C22 billion have been sold in secondary trading.

Primary market activities too, have been on the ascendancy. Over C124 billion had been raised through the Exchange as at August 1996. The simultaneous listing of Ashanti Goldfields Co. Ltd. (AGC) on the Ghana Stock Exchange and on the London Stock Exchange and the subsequent listing on New York, Toronto and Zimbabwe Stock Exchanges have given the Exchange a whole new international dimension and stature.

ACTUALISATION

With its current market capitalization of some US\$2 billion, the Ghana Stock Exchange, in terms of market capitalization, has become one of the largest sub-Saharan Stock Exchanges. Significant developments have also taken place since the Exchange began its operations. The opening of the market to non-resident Ghanaians and foreigners in June 1993 was a big boost to the development of the market. Exchange Control permission was given to foreigners and non-resident Ghanaians to invest through the Exchange without prior approval. This has attracted a number of top-rated foreign institutional buyers.

The Government has also used the Exchange to privatise some state owned enterprises and banks. Notably amongst them were the Government's off-loading of its shares in Ashanti Goldfields Company Ltd. (one of the largest mining companies in the world) and Ghana Commercial Bank one of the largest Banks in sub-Saharan Africa). A long term debt market is being developed to enable the Government and corporate bodies to issue long term debt instruments. A comprehensive educational programme has been developed to upgrade the skills of professionals in the securities market.

The Exchange expects the Government to divest more State Owned Enterprises and Banks through the Exchange. The Exchange also expects more listings from the private sector. The forthcoming issues include National Investment Bank, Aluworks Ltd. and Home Finance Company Ltd. Housing Bonds. Some corporate and government bonds are also expected to be issued and listed as part of the capital market's ongoing long term debt development programme. Work on an automated Trading, Clearing and Settlement system is to commence soon. It is aimed at enhancing the efficiency of the trading, clearing and settlement system. As at now, the Exchange operates a centralised manual clearing and settlement system. Plans are also underway to develop some new financial products such as pooled funds, commodity futures and other derivatives.

Apart from the above prospective developments, various measures are also being adopted to develop the markets and they include: improving the legal/regulatory framework; improving market surveillance, conflict resolution and enforcement mechanisms and otherwise enhancing investor protection within the Exchange; and enhancing the skills and professionalism of the Exchange's personnel as well as those of all market operators at all levels; expanding the coverage of the Exchange's promotional activities within Ghana and abroad as well as market-related professional education and training programmes. The Government, on its part, continues to pursue measures in the areas of taxation, macroeconomic policy, institutional and legal reforms as well as improvement in the infrastructure, among others, to enhance the investment environment. All these measures

ACTUALISATION

A quote from www.microsoft.com/office

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As you can imagine, controlling and managing collaboration services and desktop productivity in an organisation of this size is expensive, says Lloyd. The bank was also keen to consolidate its desktops on a standard platform that would enable better collaboration and that could be managed centrally to cut maintenance costs. But until recently, Barclays was unable to find a solution that performed on all levels. In February 2005, 5,000 Barclays Bank staff are due to move into a new head office in Canary Wharf, London, from a number of London offices. The bank intends to implement a standard Information Technology infrastructure here first, before rolling it out to the remaining users across the UK.

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The new features will enable us to get a grip on where information is going and who's accessing or editing it," says Lloyd. For users, enhanced collaboration tools such as document workspaces enable teams to edit and discuss documents and track previous versions, while an alerts feature keeps them informed of any changes or updates. Benefits Fast Return on Investment It was imperative that Barclays Bank could foresee significant returns soon after the technology implementation to remain on target to meet its promise to shareholders. The bank intends to use its investment in technology to support its competitive edge. By streamlining business processes, employees can spend more time developing important services for customers.

The bank will carefully measure cost benefits as the project progresses, but Lloyd predicts that Barclays will see early returns. In fact, he says he is confident that they will be bigger than anticipated. "All of our products undergo a strict value-based management assessment. But we are absolutely certain that from what we can see and measure today, the return on investment will be sizeable. Passing Benefits on to Customers Seamless integration with the bank's back-end enterprise services ensures that Microsoft technologies support its customer-facing services. Staff in call centres and branches will have immediate access to critical customer data via intuitive interfaces. This ensures that employees can respond quickly and efficiently to customer requests, and potentially help more customers each day.

Barclays expects employees to see numerous improvements in their day-to-day work with better control over vast amounts of information. Improved collaboration on data and documents will enable users to manage tasks more effectively, keep important discussions flowing, and ultimately speed up business decisions. Best practices and ideas are available to relevant staff regardless of location, and they can efficiently search for and share documents, confident that they are seeing most recent versions. "We will have the ability to manage, index, and secure our data, and be confident of how it's used. Groups of employees across the enterprise can come together to significantly improve worker productivity, something that we have not been able to achieve in the past," says Lloyd.

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If you put a proposition together, it's going to transcend a number of distinct business units or input groups. The portal makes the information sources easy to access and collaborate on in a structured way, where everyone can find relevant resources in one place. It's much easier than trying to point everyone to different Internet pages, for example. The bank expects that standardising the server environment and desktops on Windows technologies, combined with enhanced applications and products, will eliminate what has been a large source of service complaints and frustration among staff.

As we relocate and take stock of corporate strategy, the desktop environment is one of the most important single areas we will tackle in terms of productivity improvement, cost control, and service-level satisfaction," says Lloyd. User-friendly tools, which provide easy access to applications and databases, and integrated collaboration features help, ensure that users get the most out of IT, with minimal training. The reliable platform will minimise downtime and ensure workers have constant access to the services they need, while centralised management tools take the strain off IT teams.

The information portal will bring people together quickly by broadening the methods of collaboration. Workers will no longer waste time on searching for information or contacting colleagues, and urgent matters can be dealt with almost instantly. "SharePoint Portal Server 2003 is now part of our business strategy and supports our business drivers in an unrivaled way," says Lloyd. Barclays Bank is confident that users will be able to operate the new tools and applications quickly and easily. "Staff are comfortable using Microsoft products at home, so they are already familiar with the technology. As a result, we believe they will be able to intuitively use the new features and functions at enterprise scale," says Lloyd.

Lloyd expects that the savings achieved through integration will further contribute to the cost reduction targets at Barclays Bank, while training and education can be kept to a minimum. "We expect our users to adopt the corporate applications and services that we're planning to deliver with ease. We will also educate them in skills such as quick manipulation of data for our servicing channels and in our face-to-face branch activities." With a great deal of security issues surrounding financial institutions, Barclays was well aware of the need for a system that ensured data protection in all aspects of the operation. But Lloyd is confident that a Microsoft solution adequately provides the necessary levels of security. He says:

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For Lloyd, the selection of Microsoft Office SharePoint Portal Server 2003 was fundamental to support the bank's demanding collaboration needs. It is a secure enterprise portal server that provides a single point of access to the organisation's applications from a single Web page portal. It connects users and teams, enabling them to efficiently manage business-critical information.

Combined, these technologies deliver enhanced communications across the organisation. Tools that enable IT administrators to centrally control information access and document security ensure the bank has greater control over sensitive documents without sacrificing employees' ability to share data. "The new features will enable us to get a grip on where information is going and who's accessing or editing it," says Lloyd. For users, enhanced collaboration tools such as document workspaces enable teams to edit and discuss documents and track previous versions, while an alerts feature keeps them informed of any changes or updates.

It was imperative that Barclays Bank could foresee significant returns soon after the technology implementation to remain on target to meet its promise to shareholders. The bank intends to use its investment in technology to support its competitive edge. By streamlining business processes, employees can spend more time developing important services for customers. The bank will carefully measure cost benefits as the project progresses, but Lloyd predicts that Barclays will see early returns. In fact, he says he is confident that they will be bigger than anticipated.

"All of our products undergo a strict value-based management assessment. But we are absolutely certain that from what we can see and measure today, the return on investment will be sizeable.

Seamless integration with the bank's back-end enterprise services ensures that Microsoft technologies support its customer-facing services. Staff in call centres and branches will have immediate access to critical customer data via intuitive interfaces. This ensures that employees can respond quickly and efficiently to customer requests, and potentially help more customers each day.

Efficient Team Collaboration

Barclays expects employees to see numerous improvements in their day-to-day work with better control over vast amounts of information. Improved collaboration on data and documents will enable users to manage tasks more effectively, keep important discussions flowing, and ultimately speed up business decisions. Best practices and ideas are available to relevant staff regardless of location, and they can efficiently search for and share documents, confident that they are seeing most recent versions.

"We will have the ability to manage, index, and secure our data, and be confident of how it's used. Groups of employees across the enterprise can come together to significantly improve worker productivity, something that we have not been able to achieve in the past," says Lloyd.

Lloyd believes that collaborative tools are becoming essential for working on business-critical documents, such as value propositions, in a large enterprise.

ACTUALISATION

If you put a proposition together, it's going to transcend a number of distinct business units or input groups. The portal makes the information sources easy to access and collaborate on in a structured way, where everyone can find relevant resources in one place. It's much easier than trying to point everyone to different Internet pages, for example.

The bank expects that standardising the server environment and desktops on Windows technologies, combined with enhanced applications and products, will eliminate what has been a large source of service complaints and frustration among staff. As we relocate and take stock of corporate strategy, the desktop environment is one of the most important single areas we will tackle in terms of productivity improvement, cost control, and service-level satisfaction, says Lloyd.

User-friendly tools, which provide easy access to applications and databases, and integrated collaboration features help, ensure that users get the most out of IT, with minimal training. The reliable platform will minimise downtime and ensure workers have constant access to the services they need, while centralised management tools take the.

The information portal will bring people together quickly by broadening the methods of collaboration. Workers will no longer waste time on searching for information or contacting colleagues, and urgent matters can be dealt with almost instantly. "SharePoint Portal Server 2003 is now part of our business strategy and supports our business drivers in an unrivaled way," says Lloyd. Barclays Bank is confident that users will be able to operate the new tools and applications quickly and easily. "Staff are comfortable using Microsoft products at home, so they are already familiar with the technology. As a result, we believe they will be able to intuitively use the new features and functions at enterprise scale," says Lloyd.

Lloyd expects that the savings achieved through integration will further contribute to the cost reduction targets at Barclays Bank, while training and education can be kept to a minimum. "We expect our users to adopt the corporate applications and services that we're planning to deliver with ease. We will also educate them in skills such as quick manipulation of data for our servicing channels and in our face-to-face branch activities."

With a great deal of security issues surrounding financial institutions, Barclays was well aware of the need for a system that ensured data protection in all aspects of the operation. But Lloyd is confident that a Microsoft solution adequately provides the necessary levels of security. He says: "The Microsoft commitment to security is reflected in the features of Windows Server 2003 and SharePoint Portal 2003.

ACTUALISATION

We wouldn't have invested in these technologies if we weren't convinced that the releases are well engineered and the mechanisms used to authenticate and police the software are reliable. Barclays Bank sees this implementation as the beginning of a new era of technology rollouts inside the organisation. "As Web services and World Wide Web penetration starts to dictate to us what we deliver and how we react to customer requests, my view is we will have to increasingly adopt Microsoft products to support these drivers and requirements."

GENERAL RECOMMENDATION

Arguably, the role of a capital market is to link the funding needs of firms and households with the needs of investors, and thus realize efficient fund allocation. While I used the term 'efficient fund allocation,' it is by no means the mere process of quantitative allocation. Interest rates, which are the price of funds, are determined by supply and demand in the market. As a market expands, various participants enter and the market and prices are formed more efficiently, resulting in more efficient fund allocation. Through such a process is the basis for economic development formed.

This is the significance of developing capital markets, in the household sector, the accumulation of financial assets and aging have led to an increase in assets such as pension and insurance funds, and the demands of institutional investors for long-term investment vehicles have been increasing. A challenge for the capital markets is thus to provide various long-term financial products in response to such heightened needs. In the meantime, many firms have actively been making efforts to innovate their management style under a rapidly changing industrial structure. In the process, firms have come to face increasingly complicated and diversified risks. One role for the capital markets is to provide a variety of risk-hedge methods against such diversified risks as price volatility pertaining to interest rates, foreign exchange rates, stock prices, and property prices.

Banks should naturally also play a role in efficient fund allocation. As we all know, they play a financial intermediary function between fund-raisers and depositors by accepting deposits and extending loans, in other words, taking certain risks themselves using their own balance sheets. There is no point in discussing the relative importance of banks and capital markets, as they ought to complement each other to support a nation's financial and economic system. In fact, there have been several instances in the US when capital markets substituted for the flow of funds through banks when they were in trouble, and, to the contrary, banks expanded fund provision to firms instead of the capital markets when they contracted due to certain shocks. For example, when the large hedge-fund Long-term Capital Management collapsed in autumn 1998, capital markets contracted rapidly and corporate bond issuance declined.

However, smooth fund provision to firms was preserved thanks to a substantial increase in bank lending, successfully replacing fund provision via capital markets. As such, it is desirable to see banks and capital markets develop together by being closely connected and influencing each other, and supporting Japan's economy from the financial front. Since banks are currently saddled with non-performing loans, NPLs, the role of capital markets has become especially important.

GENERAL RECOMMENDATION

A report entitled "Japan's Non-performing Loan Problem," published by the Bank of Japan in October, advocated comprehensive measures were inevitable in order to overcome the NPL problem, including a prompt grasp of the economic value of such loans, the promotion of their prompt disposal, and improvement in the earning power of both borrowing firms and banks. Subsequently, the Financial Services Agency formulated its Program for Financial Revival and, on November 29, announced a timetable.

Taking into account such developments with respect to the NPL problem, banks have been vigorously striving to strengthen their management base by focusing on the prompt disposal of NPLs and an improvement in earning power. Under such an environment, the significance of developing capital markets is manifold. Firstly, it is important to take advantage of capital market functions in order to maintain smooth corporate finance. In the process of banks pursuing ways to strengthen themselves, it is likely they will aim at adjusting the composition of their portfolio to strike an appropriate balance with their net worth while reducing their assets to some extent.

While this might be seen as implying a reduction in new loans, the reality is that banks have so far adjusted their portfolios through measures such as the securitization of existing loan assets, a reduction in foreign assets, and selling their securities holdings. In the long run, such moves are necessary if an efficient financial intermediary function is to be restored on the part of banks, but we have to be vigilant as to what effect it will have on corporate financing.

In order to ensure smooth corporate financing, firms need to devise ways from various angles. One such angle is utilization of the capital market. As previously mentioned, banks and capital markets are complementary, and capital markets are expected to substitute for the role of banks in the event banks are faced with problems. In fact, in addition to direct funding measures such as corporate debentures and CP, recent developments in financial technology have facilitated the securitization and liquidation of loan assets into forms in line with investor needs. These developments cannot resolve all problems attaching to corporate finance, but I believe that, in order to ensure smooth corporate finance, firms should not leave the capital market function unutilized.

Secondly, and from a slightly different perspective, it can be pointed out that the more efficient pricing in capital markets becomes, the more favorable effects will emerge with respect to the disposal of NPLs and an improvement in earning power. In disposing of NPLs, banks are required to make efforts to remove such loans from their balance sheets upon setting aside appropriate provisions.

GENERAL RECOMMENDATION

Such off-balancing could be realized through the secondary market for loan assets, and, the mere existence of a market with various investors makes it easier for banks to find investors who have a strong willingness and know how for reviving troubled firms, and thus the path for business revival might become more visible. In addition, through such a process, prices for securitized loan assets will be formed at levels which are acceptable or borrowers and lenders have no choice but to accept, and banks would be able to more smoothly promote the disposal of NPLs by making reference to those prices in the secondary market.

In the future, when the disposal of NPLs and corporate rehabilitation is conducted through the Resolution and Collection Corporation and the Corporate Rehabilitation Organization, if there is a secondary market for loan assets, and market prices are formed transparently for various loan assets, such prices could be used effectively as a clue to evaluate individual corporate value. In addition, from the viewpoint of strengthening earning power, banks have to endeavor to set more appropriate lending rates which correspond to the risks. In so doing, if there are developed secondary markets for loan assets, then banks can judge the appropriateness of their lending rates by using such market prices as a reference together with their own risk evaluation methods.

As such, the process of strengthening bank management encourages the expansion of capital markets, and banks can strengthen their own management if capital markets function effectively. Strengthening bank management can trigger the development of capital markets, and efforts should be made to this end.

In macroeconomics, money supply monetary aggregates, money stock is the quantity of currency and money in bank accounts in the hands of the non-bank public available within the economy to purchase goods, services, and securities. The rate of interest is the price of money. The two are related inversely, such that, as money supply increases interest rates will fall. When the interest rate equates the quantity of money demanded with the quantity of money supply, the economy is working at the money market equilibrium.

CONCLUSION

The money demand market uses the same tools of analysis as to other markets: supply and demand result in an equilibrium price, where the free market or long term interest rate plus the quantity of real money available balance the demand for money. Short term rates are artificially manipulated by the Federal Reserve in the open market.

When thinking about the "supply" of money, it is natural to think of the total of banknotes and coins in an economy. That, however, is vastly incomplete. In the United States, coins are minted by the United States Mint, part of the Department of the Treasury, outside of the Federal Reserve. Banknotes are printed by the Bureau of Engraving & Printing on behalf of the Federal Reserve System. The Federal Reserve can also create book-keeping credits in the reserve accounts of its member banks, on the same terms as it can issue paper banknotes by pledging collateral, usually in the form of US Treasury securities. As it always stands ready to exchange these book-keeping credits for paper banknotes, they are functionally equivalent.

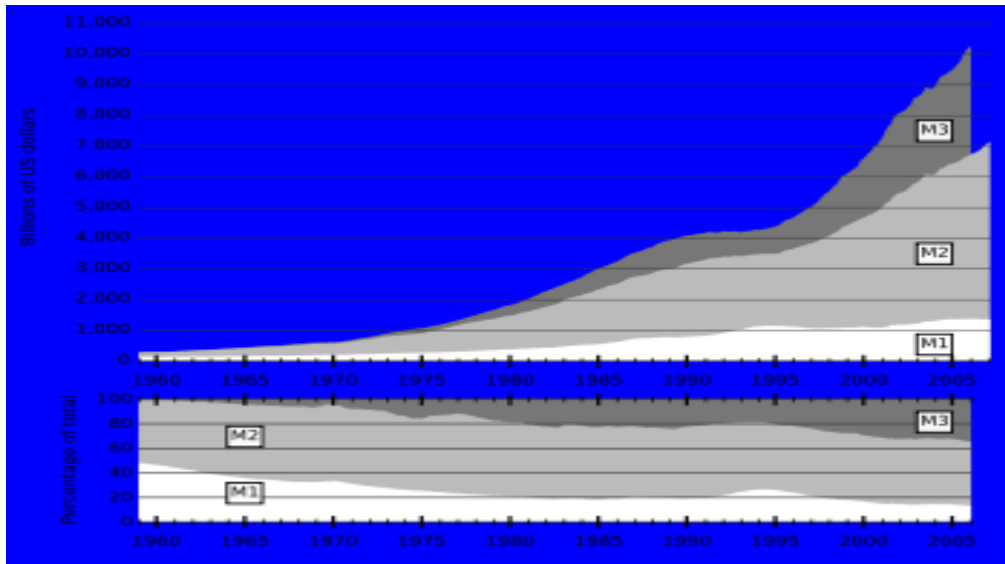
In this respect, all paper banknotes in existence are systematically linked to the expansion of the electronic, credit-based money supply. Coinage can be increased or decreased outside this system by Legal Mandate or Legislative Acts. However, at present the coin base is held in check and used as a complementary system rather than a competitive system with private bank issue of electronic, credit-based money. The common practice is to include printed and minted money supply in the same metric.

The more accurate starting point for the concept of money supply is the total of all electronic, credit-based deposit balances in bank (and other financial) accounts (for more precise definitions, see below) plus all the minted coins and printed paper. The M1 money supply is M0, plus the total of (non-paper or coin) deposit balances without any withdrawal restrictions (restricted accounts that you can't write checks on are put in the next level of liquidity, M2).

The relationship between the M0 and M1 money supplies is the money multiplier basically, the ratio of cash and coin in people's wallets and bank vaults and ATMs to total balances in their financial accounts. The gap and lag between the two M0 and M1 M0 occurs because of the system of fractional-reserve banking.

Because in principle money is anything that can be used in settlement of a debt, there are varying measures of money supply. The narrowest (i.e., most restrictive) measures count only those forms of money available for immediate transactions, while broader measures include money held as a store of value

CONCLUSION



Components of US money supply (M1, M2, and M3) since 1959

The most common measures are named M0 (narrowest), M1, M2, and M3. In the United States they are defined by the Federal Reserve as follows, M0, The total of all physical currency, plus accounts at the central bank that can be exchanged for physical currency. M1 M0 those portions of M0 held as reserves or vault cash the amount in demand accounts ("checking" or "current" accounts). M2 M1 most savings accounts, money market accounts, and small denomination time deposits certificates of deposit of under \$100,000).

M3 M2 + all other CDs deposits of Eurodollars and repurchase agreements, as of March 23, 2006, information regarding M3 will no longer be published by the Federal Reserve, ostensibly because it costs a lot to collect the data but doesn't provide significantly useful data. The other three money supply measures will continue to be provided in detail. In an effort to reverse this change, Congressman Ron Paul introduced the now expired H.R.4892 on March 7th, 2006, and subsequently sponsored H.R.2754 on June 15th, 2007 which has been referred to the House Committee on Financial Services.

There are just two official UK measures. M0 is referred to as the "wide monetary base or narrow money" and M4 is referred to as "broad money" or simply the money supply. M0 Cash outside Bank of England + Banks' operational deposits with Bank of England. M4 Cash outside banks i.e. in circulation with the public and non-bank firm's private-sector retail bank and building society deposits Private-sector wholesale bank and building society deposits and Certificate of Deposit.

CONCLUSION

It is my great pleasure to address the Capital Markets Research Institute today. I would like to share my thoughts with you on the challenges in regard to the development of Japan's capital markets and the role of market participants. Since adopting the so-called quantitative easing framework in March 2001, the Bank of Japan has substantially increased its liquidity provision to the market. To illustrate the extent of fund provision by the Bank, let me quote some figures with respect to the size of the Bank's assets. As shown in Figure 1 in the handout, they were 139 trillion yen as of end-fiscal 2001. In comparison, in yen terms the assets of the European Central Bank were 95 trillion yen and those of the US Federal Reserve System 86 trillion yen. In terms of asset size, the Bank of Japan is the largest central bank in the world. Of note is that the ratio of the Bank of Japan's assets to nominal GDP increased substantially from 16% at end-fiscal 1998 to 28% at end-fiscal 2001.

While fund provision from the Bank has increased dramatically, commercial bank lending has been declining since 1997, showing a year-on-year decline of 3% adjusting for special factors such as write-offs. At present, firms still carry excess debt, and they are pursuing such debt restructuring as allotting improved cash flows to repaying borrowings from banks. On the other hand, banks need to promote the disposal of non-performing loans (NPLs) and improve their earning power. In the process, there will be forces holding down bank lending from both banks themselves and firms.

Banks will view corporate fund demand as being low while firms for their part will feel that the lending attitude of banks is severe. What is important here is whether other developed channels of fund raising are available. If such channels are in place, firms can satisfy their needs by obtaining funding through them, thus leading to economic development. The capital markets are one such fund-raising channel.

Let me start by giving an overview of Japan's financial and capital markets using Figures 2 and 3 in the handout. As shown in Figure 2, in Japan the most rapidly developing financial and capital market is the primary market for Japanese government bonds (JGBs), whose issue amount outstanding already exceeds 500 trillion yen. While we will have to tackle the difficult problem of reimbursing the massive increase in government bonds in the future, the JGB markets, including the primary and secondary markets, as well as payment and settlement system, have developed substantially.

In terms of corporate sector funding shown in Figure 3, while the outstanding loan amount extended by commercial banks is some 300 trillion yen, the outstanding balance of corporate bonds and CP issued remains at 80 trillion yen. The size of the corporate bond and CP markets relative to the loan market is quite small in Japan compared with the US. In addition, unlike the US where even BBB-rated firms actively issue corporate bonds, only firms with a relatively high credit rating can issue bonds and thus it cannot be denied that the market lacks depth in Japan.

CONCLUSION

Although not shown in the handout, the outstanding balance of securitized products, such as asset-backed securities (ABS), is also small in Japan, being a little below 20 trillion yen in Japan, compared with more than 600 trillion yen, in yen terms, in the US. Since financial and capital markets reflect the history and economic structure of an individual country, Japanese markets do not necessarily need to have the same structure as those of US markets. Given the current financial and economic situation in Japan where the NPL problem is a big burden, it is important to effectively utilize the capital markets, which are an alternative credit intermediary channel.

There are two types of capital markets: stock markets (equity markets) and the markets which deal with such corporate debt obligations as corporate bonds and CP, the so-called debt markets. While both markets are equally important, I have the impression that, except among experts such as today's audience, stock markets tend to attract more discussion relative to debt markets, and also that there seems to be substantial room for improving debt markets.

The following is the outline of my speech with particular emphasis on debt markets: first, why it is important to develop capital markets; second, what are the necessary conditions for capital market development; third, what are the recent changes in capital markets; and fourth, how the Bank of Japan is trying to improve capital markets.

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