Index

Aargau 116
ABCP (asset-backed commercial paper) 115, 123, 135, 166–7
ABS (asset-backed securities) 133, 152, 157, 229
activist rules 4, 7
Adenauer, Konrad 199
aggregate demand, support proposals 59–60
AIG 136, 140, 151, 153, 159, 168
Almunia, Joaquín 190, 198
AMLF (Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility) 150, 154, 230
animal spirits 87
The Annals of Gullibility 114
anti-depression credit expansion 123
anti-growth bias 200
ARMs (adjustable rate mortgages) 116
Asian crisis 205
asset prices 26, 238, 239–40
asset-purchase programs 153
asymmetric shocks 194, 205, 210
Atesoglu, H.S. 5, 44
bad debt 14, 15, 66
bad money 14
Bagehot principle 119
Banco de México 67–8, 69, 72–7, 145
Bank of America 136, 140, 147
Bank of Canada 113, 114, 120, 123–4, 125, 145, 166–87
and credit easing 179–86
and inflation 169–72
and quantitative easing 176–9
and zero interest rate policy 173–6
bank credit issuance 61
bank credit rationing 64, 74, 76
Bank of England 113, 119, 120, 121–2, 145, 155, 158, 178, 196, 215, 228
Bank of Japan 143, 145, 146, 155, 158, 179, 231
bank rescues 216
bank reserve interest 158
bank-based financial structure 67–70
banks
capital injection into 56–7
central see central banks
commercial see commercial banks
development (public) 67, 73
Fed lending limits to 58
and market discipline 54
political power in Latin America 66
private 87–90, 97
proposals/restrictions for 54–6
taxation on 56
Barclays 140, 147
baseline new consensus model 21, 22–4
BdL (Bank deutscher Lander) 198–9, 200
Bear Stearns 115, 135, 140, 148, 149, 153, 159
Bernanke, B. 113, 117–20, 121, 122, 124, 125, 138–9, 145–6, 153, 158, 159, 160, 231, 235
Bibow, J. 213
BIS (Bank for International Settlements) 145, 161
Blinder, A. 63, 120
BNP Paribas 119, 134, 147
borrower risk 95
Bradford & Bingley 216
Bretton Woods system 48, 67, 72, 201
Bundesbank 113, 114, 122–3, 198–203, 204, 212
C–S (Carlin-Soskice) model 22–5, 27–33
Caisse de Depots 115
Cantor Fitzgerald 148
capital assets 87, 88
capital flows
  cross-border 131
  and European instability 214
inflows 206
capital, marginal efficiency 13
capital market globalization 72
capital mobility 63
capital-based system 70–72
  Mexico’s transition to 72–7
Carlin, W. see C–S
Carney, Mark 174
CDOs (collateralized debt obligations) 115, 116, 133, 134, 135, 235
CDS (credit default swaps) 136, 235
central banks
  in C–S model 22–3
  asset balance sheet structure 70, 73
  and collectivization 16
  and credit issuance 67–70
  CSL (currency swap lines) 144–5, 153, 158
  in developing economies 62–6
  discount rate 65
ESCB (European System of Central Banks) 192, 195, 196
  financial crises response 112–26
  and financial growth 62
  and inflation 15, 71, 73, 90–92, 207, 232, 234, 241
  interest rate manipulation 21, 24, 25, 63, 64
  as lenders-of-last-resort 64, 112–26, 142, 215, 227, 241
  loans by 54
  and long-term interest rates 7–9, 13
  and money supply 63, 64
NCBs (national central banks) 191, 192, 195
  objectives 239
  open-market operations 142–4
  policy 58, 90–92, 227, 234
  policy easing 215
  public accountability 199
  stabilization policy 20–33
TAF (term auction facility) 142, 153, 157, 158, 229
  and Taylor rule 90–92, see also Taylor rule
CERP (Center for Economic Policy Research) 198
cheap money 4, 5, 6, 8, 16
Chrysler 140
CIP (covered interest parity) 44
Citigroup 123, 148
CMBS (commercial mortgage-backed securities) 152, 230
CMHC (Canada Mortgage and Housing Corporation) 180–81, 186
commercial banks 21–22
  endogenous 24–33
  macroeconomic stabilization in 27–33
  modeling 26–7
  state of confidence 92
common shocks 194
competitive depreciation 11
competitiveness channel 209
certainty, loss of 14, 15, 17
consumption 236
convergence play 206
Copeland, M.A. 184
corridor framework 175
corridor of stability 91
Coventree 166–7
Coyne, James 124, 125
CPFF (Commercial Paper Funding Facility) 151, 154, 158, 229
CPI (consumer price index) and inflation/deflation 171
credible fixed exchange regimes 44
credit card interest rate 73
credit constraints 64
credit default insurance 55
credit easing 146, 179–86, 187
credit issuance 62–6
  and central banks 67–70, 71, 72
credit restraints, in developing countries 70–72
credit risks 65
Credit Suisse 148
CSL (currency swap lines) 144–5, 153, 158
Daiwa 148
de Larosière, Jacques 217
debt-deflation 121–2, 125, 136–9
debt-deflation spiral 137–8
<table>
<thead>
<tr>
<th>Term</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>default risk</td>
<td>88</td>
</tr>
<tr>
<td>deflation</td>
<td>97–8, 13–39</td>
</tr>
<tr>
<td>deflation rate target</td>
<td>170</td>
</tr>
<tr>
<td>deleveraging</td>
<td>137</td>
</tr>
<tr>
<td>deposit insurance</td>
<td>56</td>
</tr>
<tr>
<td>depression economics</td>
<td>32</td>
</tr>
<tr>
<td>Deutsche Bank</td>
<td>148</td>
</tr>
<tr>
<td>development (public) banks</td>
<td>67, 73</td>
</tr>
<tr>
<td>development trust funds</td>
<td>68</td>
</tr>
<tr>
<td>Dexia</td>
<td>216</td>
</tr>
<tr>
<td>Dodge, David</td>
<td>117, 125</td>
</tr>
<tr>
<td>domestic political policy</td>
<td>38</td>
</tr>
<tr>
<td>double-dip recession</td>
<td>155</td>
</tr>
<tr>
<td>Duisenberg, Wim</td>
<td>197</td>
</tr>
<tr>
<td>ECB (European Central Bank)</td>
<td>113, 114, 120, 122, 135, 141, 142, 145, 155, 158, 166, 190–221, 228</td>
</tr>
<tr>
<td>Ecofin (EU Council of Economics and Finance Ministers)</td>
<td>194</td>
</tr>
<tr>
<td>economic growth strategies</td>
<td>38</td>
</tr>
<tr>
<td>The Economists versus the Bank of Canada</td>
<td>113</td>
</tr>
<tr>
<td>EDP (Excessive Deficit Procedure)</td>
<td>193, 219</td>
</tr>
<tr>
<td>emerging-market economies, overheating of</td>
<td>155</td>
</tr>
<tr>
<td>employment restoration proposals</td>
<td>59–60</td>
</tr>
<tr>
<td>EMS (European Monetary System)</td>
<td>201, 202</td>
</tr>
<tr>
<td>EMU (Economic and Monetary Union)</td>
<td>190–221</td>
</tr>
<tr>
<td>endogenous interest rates</td>
<td>89–90</td>
</tr>
<tr>
<td>endogenous money theory</td>
<td>7, 9, 14, 21, 38, 44, 61, 89</td>
</tr>
<tr>
<td>endogenous variables, in small open economy</td>
<td>39–40</td>
</tr>
<tr>
<td>enhanced credit support approach</td>
<td>215</td>
</tr>
<tr>
<td>ERM2 (revised exchange rate mechanism)</td>
<td>194</td>
</tr>
<tr>
<td>ESCB (European System of Central Banks)</td>
<td>192, 195, 196</td>
</tr>
<tr>
<td>EU financial assistance</td>
<td>219–20</td>
</tr>
<tr>
<td>EU/national cooperation</td>
<td>217</td>
</tr>
<tr>
<td>Eucken, Walter</td>
<td>199</td>
</tr>
<tr>
<td>euro</td>
<td>190–221</td>
</tr>
<tr>
<td>breakup rumours</td>
<td>219</td>
</tr>
<tr>
<td>countries adopting</td>
<td>191–2</td>
</tr>
<tr>
<td>Euroland</td>
<td></td>
</tr>
<tr>
<td>in 2002 economic boom</td>
<td>211</td>
</tr>
<tr>
<td>2008 emergency summit</td>
<td>216</td>
</tr>
<tr>
<td>budget deficits</td>
<td>220</td>
</tr>
<tr>
<td>business cycle</td>
<td>203</td>
</tr>
<tr>
<td>economic instability</td>
<td>190–91, 214</td>
</tr>
<tr>
<td>exchange rates</td>
<td>194</td>
</tr>
<tr>
<td>and global crisis</td>
<td>212–20</td>
</tr>
<tr>
<td>and global imbalance</td>
<td>213</td>
</tr>
<tr>
<td>and global slowdown</td>
<td>206</td>
</tr>
<tr>
<td>instability</td>
<td>204</td>
</tr>
<tr>
<td>macro policy</td>
<td>210</td>
</tr>
<tr>
<td>monetary/fiscal policy</td>
<td>203</td>
</tr>
<tr>
<td>no bailout clause</td>
<td>219</td>
</tr>
<tr>
<td>recession</td>
<td>204</td>
</tr>
<tr>
<td>wage policy</td>
<td>194</td>
</tr>
<tr>
<td>European Currency Unit</td>
<td>see euro</td>
</tr>
<tr>
<td>European Economic Recovery Plan</td>
<td>218</td>
</tr>
<tr>
<td>European Investment Bank</td>
<td>215, 218</td>
</tr>
<tr>
<td>euthanasia of the rentier</td>
<td>7, 10</td>
</tr>
<tr>
<td>excess bank reserves</td>
<td>177</td>
</tr>
<tr>
<td>excessive deficit procedures</td>
<td>207</td>
</tr>
<tr>
<td>Exchange Rate Mechanism</td>
<td>122</td>
</tr>
<tr>
<td>exchange rates</td>
<td></td>
</tr>
<tr>
<td>Euroland</td>
<td>194</td>
</tr>
<tr>
<td>flexible</td>
<td></td>
</tr>
<tr>
<td>comparative statistics in</td>
<td>42–4</td>
</tr>
<tr>
<td>in small open economy</td>
<td>39–40</td>
</tr>
<tr>
<td>stability in</td>
<td>41–2</td>
</tr>
<tr>
<td>floating</td>
<td>38, 50</td>
</tr>
<tr>
<td>fluctuations</td>
<td>171</td>
</tr>
<tr>
<td>intra-area (Euro)</td>
<td>195</td>
</tr>
<tr>
<td>irrevocable fixed (hard peg)</td>
<td>44–7</td>
</tr>
<tr>
<td>as monetary variable</td>
<td>38–9</td>
</tr>
<tr>
<td>and money supply</td>
<td>234</td>
</tr>
<tr>
<td>nominal</td>
<td>194</td>
</tr>
<tr>
<td>exogenous shock</td>
<td>21</td>
</tr>
<tr>
<td>exogenous wage increase</td>
<td>47</td>
</tr>
<tr>
<td>fair rate rule</td>
<td>6, 8</td>
</tr>
<tr>
<td>Fannie Mae</td>
<td>132, 136, 147, 157, 158, 168, 229</td>
</tr>
<tr>
<td>FDIC (Federal Deposit Insurance Corporation)</td>
<td>53–60, 125, 140, 156, 159, 160</td>
</tr>
<tr>
<td>Fed Funds</td>
<td>57, 228</td>
</tr>
<tr>
<td>Federal Home Loan Banks</td>
<td>147</td>
</tr>
<tr>
<td>Federal Reserve Act (1913)</td>
<td>140</td>
</tr>
</tbody>
</table>
Federal Reserve (Fed) 53–60, 112–13, 117–20, 124, 139, 140, 141, 142, 143, 144–5, 197, 215
exit strategies 153–62
and inflation 233
market support programs 145–52
monetary policy during crisis 228–31
operational challenges 156–8
quantitative easing by 227–41
and short-term money markets 235
and wealth distribution 239
Ferguson, Niall 123
financial crises 112–14
financial institutions, rescue of 139–41
financial intermediation 61
financial markets, revival of broken 150–52
Financial Services Modernization (Gramm–Bliley–Leach) Act (1999) 141
Financial Stability Board 161
financialized economy 84–92
firms
and investment 86–7
self-financing 96
state of confidence 92–3
fiscal policy
government 84–5, 93, 232
national 194
as stabilization tool 237
fiscal responsibility 47
fiscal stimulus 43, 233
Fisher, Irving 118, 137
fixed rate full allotment 215
Flexible Credit Line facility (IMF) 220
flexible exchange rate see exchange rates
flexible fair rate 8
flexible opportunistic rule 5, 8
FOMC (Federal Open Market Committee) 112–13, 230
Fortis 216
Freddie Mac 132, 136, 147, 157, 158, 168, 229
Friedman, Milton 170
Fuld, Dick 126
G20 network 161
G20 summit, Pittsburg 220
GAB (General Agreement to Borrow) 144
General Motors 140
General Theory of Employment, Interest and Money 11, 27, 91
German disease 212
Ginnie Mae 147
Glass–Steagall Act 125
global seigniorage 131, 134
globalization 38
Godley, W. 89
gold standard 113, 118, 121
Goldman Sachs 114, 115, 140, 148, 159
Goodhart, C.A.E. 33, 117
government bonds purchase 142–4
Gramm–Bliley–Leach Act (1999) 141
Greenspan, Alan 234–5
Greenspan, Stephen 114
growth
export-led 133
and investment 86
growth rate fall 95
GSE (government sponsored enterprises) 229
Halberstam, David 118–19
hard peg (irrevocable fixed) exchange rates 44–7
Havenstein, Rudolf 122, 125
HBOS (Halifax Bank of Scotland) 122, 216
Helburn, A. 240
Hicksian liquidity trap 233
HICP (Harmonized Index of Consumer Prices) 196, 220
High-Level Group on Financial Supervision in the EU 217
home equity withdrawals 133
households
financing 87
state of confidence 93
housing market bubbles 119, 125, 131–4, 213, 214
HSBC (Hong Kong Shanghai Banking Corporation) 148
Humphrey, T. 37
Hypo Real Estate Holding 216
Index

Iceland bank crisis 119–20
IMF (International Monetary Fund) 161, 217, 220
income distribution
and income policy 10
and interest rates 6–7
inflation
and bad debt 15
and central banks 15, 71, 73, 90–92, 207, 232, 241
and consumer price index 171
cost-push 44
and debt mitigation 237
and ECB 206
in Great Depression 199–200
market-determined underlying 208
and monetary aggregates 178
targeting 5–6, 120, 171, 197
tax-push 203, 207–8, 210, 218
neutral 91
NIR (nominal interest rate) 8
and output 5–6
overnight rates 21, 25, 174, 175, 176
re-sets 134
RIP (real interest parity) 44
RIR (real interest rate) 8, 63
short-term 12, 13, 16
short-term interbank 10
UIP (uncovered interest parity) 44
International Economics 234
investment
and growth 86
and profit 237
IROP (interest rate operating procedure) 23, 24, 27–33
irrational exuberance 116
Issing, Otmar 122, 201, 202
Jefferies & Co. 148
Johnson, P.A. 199
JPMorgan Chase 135, 140, 148, 159
jump variable 41
Kahn, Richard 178
Kaldor, Nicholas 178
Kalecki, Michal 236
Kam, E. 37–9, 41
Kansas City rule 7, 10–11
Keynes, John Maynard 122
Kindleberger, Charles 120
King, Mervyn 113, 119, 120, 121–2, 125
Kohl, Helmut 202
Kregel, J. 71, 234, 235
Krugman, P. 231, 232, 233, 234, 241
L-shaped recovery 156
Landesbanken 119
Lavoie, M. 89
Le Bouvra law 64
legacy securities 151
legal reserve requirement 68, 69
Lehman Brothers 115, 119, 126, 130, 136, 140, 141, 148, 149, 150, 152, 153–4, 168, 216
lender risk 96–7
Louis-Philippe Rochon and Salewa ‘Yinka Olawoye - 9781849987364
Downloaded from PubFactory at 09/16/2023 09:50:53AM
via free access
Monetary policy and central banking

leverage
deleveraging 137
limits on 115
leverage ratio 89, 130
leveraged buyouts 131
LIBOR (London Inter-Bank Offered Rate) 54–5, 152
liquidity preference 9, 11, 13, 14
liquidity risk 88
liquidity trap, and quantitative easing 231–5
Lisbon Agenda 195
Lloyds insurance exchange 125
Lloyds TSB 216
LM analysis 21
low real rate 6
LR (lender’s risk) 88–9
Lucas, R.E. 34
LVTS (Large Value Transfer Systems) 167, 176, 187
Lynch, J. 240

Maastricht paradox 193
Maastricht regime 191, 192, 193, 194, 196, 198–212, 220
Maastricht Treaty 85, 193
MacLean, Brian 124
macroeconomic stabilization, in endogenous commercial banks 27–33
Madoff, Bernie 114
Maiden Lane bailout loans 153, 159
mark-to-model accounting 135
market risk 88
market-support programs 153
marketable wealth 239
Marshall–Lerner conditions 40
Martin, Paul 124
MBS (mortgage-backed securities) 132, 133, 134, 135, 147, 149, 152, 154, 157, 158–9
mercantilist systems 37–51, 220
Merrill Lynch 115, 136, 140, 141, 148
Meyer, Eugene 118–19, 124
micro-prudential supervision 217
micro-uncertainty 65
Minskian approach 83, 227, 235–8, 241
Minsky, Hyman 120, 136
Mizuho 148

MMIFF (Money Market Investor Funding Facility) 150, 154, 229
MMMF (money-market mutual funds) 149–50
monetary aggregates, and inflation 178
Monetary Dialogue (ECB) 193
monetary mercantilism 37
monetary policy
and banks 58
conditions for success 13
conventional 177
deflation 138
effectiveness of 232
Federal Reserve during crisis 228–31
interest rates 12–13, 234
in Maastricht regime 203
stimulating the economy 234
taylor rule 93
tools 139–45
monetary tightening 219
monetary-base-multiplier 21
monetization, of government debt 143, 155
money
cheap money 4, 5, 6, 8, 16
optimal quantity 170
money advances 61
money auctions (TAF) 142
money markets
in 2007 financial crisis 214, 215
key rate 89
short-term 235
money supply, and central banks 63
Morgan Stanley 115, 140, 148
mortgage refinancing 132
mortgages, and Bank of Canada 180
multilateral surveillance 193
Mundell, R.A. 210
MURI (minimum unemployment rate of inflation) 6, 8
Murray, John 169, 178
NAFTA (North American Free Trade Agreement) 72
NAIRU (non-accelerating inflation rate of unemployment) 169
national/EU cooperation 217
NCBs (national central banks) 191, 192, 195
negative inflation rate target 170
net worth 239, 240
neutral rate 5, 8
neutralizing operations 182
new consensus model 21, 22–4, 33, 63
new economy 44
New European Systemic Risk Board 217
New Zealand central bank 120
NINJA loans 116
NIR (nominal interest rate) 8
no bailout clause 219
Nomura 148
non-home wealth 239–40
Norman, Montagu 121, 125
Northern Rock 119, 122
Obama, Barack 160
Obstfeld, M. 234
open-market operations 142–4
opportunistic approach 5
optimal monetary rule 4
output level and interest rates 4–5
output restoration proposals 59–60
Paine Webber 115
Palley, T.I. 5–6, 8, 26, 33, 38
parking it rules 4, 6–7, 11
PDCF (Primary Dealer Credit Facility) 149, 153, 157, 229, 230
Peabody, Kidder 115, 125
Pigou real balance effect 121
PIMCO 151
Ponzi schemes 114
Porter, Eduardo 114
positive settlement balances 177
Posner, Richard 117
PPIP (Public Private Investment Program) 151–2
price stability 197, 198, 201
price-level target 170
primary dealers 147–9
private debt 14
profit stabilization, and quantitative easing 235–8
public deficit rule 85
public expenditure rule 85
quadruple entry principle 184
quantitative easing 143, 146, 176–9, 186, 187, 227–41
and asset prices 239–40
and liquidity trap 231–5
and profit stabilization 235–8
Radcliffe Committee 178
RBC (Royal Bank of Canada) 123, 148
RBS (Royal Bank of Scotland) 122, 123, 148
Reagan, Ronald 133
recovery types 155–6
reflation policy 234
Reichsbank 113, 122
reserve deposit interest 141–2
Reserve Primary Fund 136, 149
reverse repurchasing agreements 157–8
RIP (real interest parity) 44
RIR (real interest rate) 8
risk premiums 88
Rubin, Robert 114
S&Ls (Savings and Loans) crisis 116, 125
Sack, B.P. 231
saddle-point equilibrium 47
Sánchez Lugo, L. 67
savings ratio decline 238
Schumpeterian growth model 43
SEC (Securities and Exchange Commission) 115, 125, 160
securitization collapse 137
Setterfield, M. 4, 11
SFC (stock-flow consistent) model 83, 84–92
SGP (Stability and Growth Pact) 193, 211, 218, 219
shadow-banking system 133
Shiller, Robert 116
short-term money markets 235
Single Market Program 195
Single Market undermining 216
SIVs (structured-investment vehicles) 152, 215
Small Business Administration 151
small open economy and fixed exchange rates, hard peg 44–5
and flexible exchange rates 39
and residual friction/currency risk 47–50
Smithin, J. 6, 37–9, 41, 43, 44
Monetary policy and central banking

SOMA (System Open Market Account) 148, 149
Soskice, D. *see* C–S
SPRAs (Special Purchase and Resale Agreements) 167–8
SPVs (special-purpose vehicles) 150, 151
stability-oriented policy (in ECB) 195, 197, 198, 204, 208, 220
stable arm equilibrium 41
stagflation 44, 237
Stand-by Arrangements (IMF) 220
Stanford, Allan 114
state of confidence 4, 13–15, 83, 87, 88
generalized crisis in 92–9
steady-handedness 207
Steinbrück, Peer 213, 219
stock price volatility 114
stock-flow imbalances 33
straw fire 202
structural crisis 130
subprime mortgage crisis 119, 125, 134, 146–7, 152, 214, 238
Sveriges Riksbank 139
swap lines 55
Swiss Bank Corporation 115
Swiss National Bank 145
systemic-risk regulation 160
TAF (term auction facility) 142, 153, 157, 158, 229
TALF (Term Asset-Backed Securities Lending Facility) 151, 152, 154, 156, 157, 158, 229, 230
TARP (Troubled Asset Relief Program) 56, 57, 140, 151, 159
tax rates, and GDP 46
tax-push inflation 203, 207–8, 210, 218
Taylor rule 71, 83, 89, 90, 91, 93, 113, 120, 169, 173
term repos (term PRAs) 168, 181–3
Tily, G. 5, 8
TLGP (Term Liquidity Guarantee Program) 140
too-big-to-fail institutions 149, 157
Toporowski, J. 238
ToTEM 169
trade deficits 130
trade surpluses 130
transmission mechanisms 3, 6
transversality condition 41, 117
Trichet, Jean-Claude 197, 212
TSLF (Term Securities Lending Facility) 149, 158, 229
U-shaped recovery 156
UBS (Union Bank of Switzerland) 115, 123, 148, 152
UIP (uncovered interest parity) 44
uncertain transmission rules 7–11
unemployment 12
unequal-consumption-based growth model 239
universal bank 148
US banking system 53–60
as debtor nation 133
housing bubble 119, 125, 131–4, 213, 214
US Treasury 53–60, 141, 150, 159
V-shaped recovery 155
Vocke, Wilhelm 200
W-shaped recovery 156
Wachovia 136, 140, 168
wage compression 220
wage deflation 208
wage-indexation effect 14
wage-price flexibility 209
Washington Mutual 136, 140, 168
wealth effect 133
Weller, C. 240
Wicksell, Knut 63
Wicksellian (Woodford) interest rate policy 22, 172, 177, 186
Wolff, E.N. 239
zero-rate interest *see* interest rates
ZIRP (zero interest rate policy) 173–6, 186