Chapter 32 McConnell, Brue and Flynn 20th

Money, Banking, and Monetary Policy

Money is a fascinating aspect of the economy:

Money bewitches people. They fret for it, and they sweat for it. They devise most ingenious ways to get it, and most ingenuous ways to get rid of it. Money is the only commodity that is good for nothing but to be gotten rid of. It will not feed you, clothe you, shelter you, or amuse you, unless you spend it or invest it. It imparts value only in parting. People will do almost anything for money, and money will do almost anything for people. Money is a captivating, circulating, masquerading puzzle.[1]

In this chapter and the three chapters that follow, the foundational theories that help us to understand the Financial Sector of our economy is examined. When the monetary system is working properly, it provides the lifeblood of the circular flows of income and expenditure. A well-operating monetary system helps the economy achieve both full employment and the efficient use of resources. A malfunctioning monetary system distorts the allocation of resources and creates severe fluctuations in the economy's levels of output, employment, and prices.

[1]"Creeping Inflation," Business Review, August 1957, p. 3. Federal Reserve Bank of Philadelphia. Used with permission.