

Learning Objectives

Chapter 29

In this chapter you will

Consider what money is and what functions money has in the economy
Learn what a central bank is and its role in an economy
Get an overview of three of the main central banks – the ECB, the Bank of England and the Federal Reserve
Learn how central banks have developed different approaches to monetary policy in response to the financial crisis
Examine how the banking system helps determine the supply of money
See what tools central banks use to alter the supply of money
Examine how the nature of banking changed in the run up to the financial crisis and beyond

You should be able to

Define money and list the three functions of money
Explain the role of the central bank in money creation
Explain the money multiplier in a fractional reserve banking system
Describe the role and functions of at least one major central bank
List and explain the three tools central banks use to change the money supply
Describe how banks became more risk seeking in the run up to the financial crisis
Explain the meaning and significance of a bank run