Lecture 1

Material for lecture 1 will use the following transparencies and Figures 1-5 and 7 of chapter 1 of the textbook
Why Study Financial Markets?

1. Channel funds from savers to investors, thereby promoting economic efficiency
2. Affect personal wealth and behavior of business firms
   - Bond Market
   - Stock Market
   - Foreign Exchange Market
Bond Market

Interest Rate (%)

- Corporate Baa Bonds
- U.S. Government Long-Term Bonds
- Three-Month Treasury Bills

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Stock Market

Dow Jones Industrial Average

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Foreign Exchange Market

(March 1973 = 100)
Why Study Money?

1. Money and Business Cycle
2. Money and Prices
3. Money and Interest Rates
Money and Business Cycles

Money Growth Rate (M2)

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Money and the Price Level

Index (1987 = 100)

Aggregate Price Level (GDP Deflator)

Money Supply (M2)

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Money Growth and Interest Rates

![Graph showing the relationship between money growth rate (M2) and interest rates over time from 1950 to 2005. The y-axis represents the interest rate (%) and the money growth rate (% annual rate) on separate scales. The graph indicates fluctuations in both metrics with some periods of alignment and divergence.]
Why Study Banking and Financial Institutions?

1. Financial Intermediation
   Helps get funds from savers to investors

2. Banks and Money Supply
Why Study Money and Monetary Policy?

Influence on business cycles, inflation, and interest rates