

Chapter 15

Central Banks in the World Today

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Web Links

- [Federal Reserve System](#)
- [Bank of England](#)
- [European Central Bank](#)
- [Bank of Japan \(English\)](#)
- [Reserve Bank of Australia](#)
- [Reserve Bank of New Zealand](#)
- [Bank of Canada \(English\)](#)
- [Banco de Mexico \(English\)](#)

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The Functions of a Modern Central Bank

The Government's Bank:

- Manages the finances of the government.
- Through interest rates, controls the availability of money and credit.

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The Functions of a Modern Central Bank

The Banker's Bank:

- Guarantees that sound banks can do business by lending to them, even during crises.
- Operates a payments system for interbank payments.
- Oversees financial intermediaries to ensure confidence in their soundness.

15-4



The Objectives of a Modern Central Bank

Low, Stable Inflation:

Inflation creates confusion and makes planning difficult. When inflation is high, growth is low.

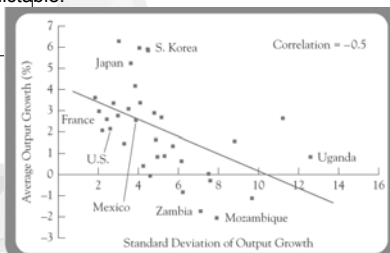
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The Objectives of a Modern Central Bank

High, Stable Growth:

When growth is predictable, it is faster than when it is unpredictable.



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The Objectives of a Modern Central Bank

Financial System Stability:

- A stable financial system is a necessity for an economy to operate efficiently.

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The Objectives of a Modern Central Bank

Stable Interest Rates:

- Interest rate volatility creates risk for both lenders and borrowers.

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The Objectives of a Modern Central Bank

Stable Exchange Rates:

- Variable exchange rates make the revenues from foreign sales and the cost of purchasing imported goods hard to predict.

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Principles of Central Bank Design

Independence:

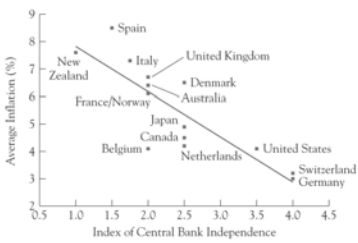
- To keep inflation low, monetary decisions must be made free of political influence

15-10



Principles of Central Bank Design

Figure 15.2 Inflation and Central Bank Independence 1973-1988



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Principles of Central Bank Design

Decision-making by Committee:

- Pooling the knowledge of a number of people yields better decisions than decision making by an individual.

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Principles of Central Bank Design

Accountability:

- Policymakers must be held accountable to the public they serve.

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Principles of Central Bank Design

Transparency:

- Policymakers must clearly communicate their objectives, decisions, and methods to the public.

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Principles of Central Bank Design

Policy Framework:

- Policymakers must clearly state their policy goals and the tradeoffs among them.

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Chapter 15

End of Chapter

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