This chapter extends the analysis of the previous chapter to an open economy by introducing exchange rate policy; analyzing the complex relationships between exchange rate, fiscal, and monetary policies; and examining the ways in which capital flows complicate traditional analyses. Despite the greater complexities associated with open economy macroeconomics, the policy conclusions for a closed economy remain remarkably unaffected. While Keynesians and heterodox economists believe that government should actively intervene, conservatives remain skeptical about the desirability of such interventions. The objective of this chapter is to shed some light on how economists can come to such diverse views on economic policy. The first section examines the macroeconomic effects of exchange rates on employment, trade, inflation, aggregate demand, growth, and balance sheets. The second section examines the complex interactions between fiscal, monetary, and exchange rate policies in open economies with either fixed or flexible exchange rate regimes. This section also examines the effects of interest rates and exchange rates on capital flows in both crisis and non-crisis situations.

Bank risk management
Tony Van Gestel and Bart Baesens

in Credit Risk Management: Basic Concepts: Financial Risk Components, Rating Analysis, Models, Economic and Regulatory Capital
This chapter presents a broad overview of banking and risk management. The chapter provides a banking history overview. Topics covered include the key role of banks in the economy as brokers and financial intermediaries, the bank balance sheet, sources of risk, risk management, regulation, and financial products.

Understanding the Balance Sheet
Hrishikes Bhattacharya

Published in print: 2011 Published Online: September 2012
DOI: 10.1093/acprof:oso/9780198074106.003.0011

A balance sheet indicates the state of a business as on a particular date. Along with a profit and loss account it tells us how the funds flowed through the business during a given period. This chapter discusses the trial balance and treatment of closing stock, the classification of accounts and the balance sheet and its format. The balance sheet is a total concept which helps the banker not only to see if the loan stands secured but also to examine whether the value of the business is increasing.

Functioning of the Eurosystem framework since 1999
F. Papadia and T. Välimäki

in The Concrete Euro: Implementing Monetary Policy in the Euro Area
Published in print: 2011 Published Online: May 2011
DOI: 10.1093/acprof:oso/9780199557523.003.0004

This chapter examines empirically the actual functioning of the Eurosystem framework for the implementation of monetary policy, i.e. the monetary policy implementation technology, in normal times and during the financial crisis that started in 2007. When useful, the chapter compares the Eurosystem experience with that of the Federal Reserve of the United States, the Bank of England, and the Bank of Japan. The chapter includes a general overview of the issue as well as separate sections for all the individual components of the monetary policy implementation technology, including central bank balance sheet analysis, review of the liquidity and collateral policies, as well as an
assessment of the precision in achieving the operational targets set for the implementation of the monetary policy.

**Antarctic subglacial water: origin, evolution, and ecology**

John C. Priscu, Slawek Tulaczyk, Michael Studinger, Mahlon C. Kennicutt II, Brent C. Christner, and Christine M. Foreman

in Polar Lakes and Rivers: Limnology of Arctic and Antarctic Aquatic Ecosystems

Published in print: 2008 Published Online: January 2009


Item type: chapter

This chapter provides up-to-date coverage on the geophysical, chemical, and biological properties of the lakes that lie beneath the Antarctic ice cap (subglacial lakes). There are at least 150 lakes beneath this ice cap and many may be connected by networks of subglacial streams and rivers. The most well known of these lakes is Lake Vostok. Recent evidence indicates that subglacial lakes may initiate and maintain rapid ice flow, and should be considered in ice sheet mass balance assessments. The discovery of viable organisms in subglacial environments demonstrates that life has radiated into all aquatic habitats on the planet. Sub-glacial liquid environments offer an exciting frontier. Their study will provide an improved understanding of the coupling of geological, glaciological, and biological processes in the polar zones.

**Three Perspectives on Policy**

Joseph E. Stiglitz, José Antonio Ocampo, Shari Spiegel, Ricardo Ffrench-Davis, and Deepak Nayyar

in Stability with Growth: Macroeconomics, Liberalization and Development

Published in print: 2006 Published Online: September 2006


Item type: chapter

Despite progress in economic science, important disagreements remain about the conduct of macroeconomic policy. This chapter identifies three broad policy positions (‘conservative’ or ‘neoclassical’, ‘standard Keynesian’, and ‘heterodox’) and looks at the theory and evidence behind each. The approaches differ not only on what they focus, but also in their assumptions concerning the structure and behavior of the economy and the behavior of government. The conservative approach focuses on inflation and deficits, which it attempts to address through
tight monetary and restrictive fiscal policy. The standard Keynesian approach is more concerned with unemployment and stagnation, which it attempts to address through expansionary monetary and fiscal policy. The heterodox approach looks for non-standard ways (including the use of microeconomic interventions) to stabilize the economy, stimulate growth and employment, and contain inflation.

**Banking Strategy**

Hrishikes Bhattacharya


Published in print: 2011 Published Online: September 2012
Item type: chapter

This chapter begins with a description of financial sector reforms in India and their impact on banks and financial institutions. It then discusses changes in savings and investment behaviour, and the concepts of securitization, strategic planning, and capital planning. This is followed by the development of a mathematical model to establish relationships between profits, dividend payouts, and growth with a given capital adequacy norm. The model shows that the future growth of a bank ultimately depends on the return on assets (ROA). ROA, in turn, depends upon the quality of loan assets under the appropriate risk-return parameters and their funding operations. The case study of a real-life commercial bank in the public sector is presented to illustrate these banking strategies.

**Stocks and Flows**

John Hicks

in Methods of Dynamic Economics

Published in print: 1987 Published Online: November 2003
Item type: chapter

This chapter attempts to define the concept of stock equilibrium, which is a key point of the Fixprice theory. Stock equilibrium is an equilibrium at a point of time; in accounting terms, it is an equilibrium of the balance-sheet. Although that sounds simple, the balance-sheet of a business, even as it is in practice, is quite a peculiar construction. It is important
to realize that its counterpart in economic theory is also a peculiar construction, in much the same way.

**Funds Flow and Cash Flow Analysis**

Hrishikes Bhattacharya

in *Banking Strategy, Credit Appraisal, and Lending Decisions: A Risk–Return Framework*

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Publisher: Oxford University Press  
DOI: 10.1093/acprof:oso/9780198074106.003.0014  
Item type: chapter

A projected cash flow statement is more of a toll for the control and monitoring of finances of a business. A banker embarks on a cash flow analysis when is satisfied about the reliability of the projections and creditworthiness of a borrower by using other tools of analysis. A cash flow analysis should be preceded by a funds flow analysis. In this chapter, the importance of cash flow analysis as a modern day tool of appraisal and monitoring is highlighted.

**The Place of Financial Markets in the Economy**

Hendrik S. Houthakker and Peter J. Williamson

in *The Economics of Financial Markets*

Published in print: 1996 Published Online: November 2003  
Publisher: Oxford University Press  
DOI: 10.1093/019504407X.003.0002  
Item type: chapter

Some of the frameworks and concepts of macroeconomics are deployed to explore the place of financial markets in the US economy, and various important questions are introduced (such as how interest rates are determined) that are elaborated upon in later chapters. The first section of the chapter looks at real assets and financial claims – balance sheets for the US economy, the US international investment position, and distribution of financial assets. In the second section – A framework for macroeconomic analysis of flows – one of the main tools of analysis used is the National Income and Product Accounts (NIPA), which extend the accounting concepts developed in Ch. 1 to the economy as a whole; these accounts are combined with the Flow of Funds (FOF) accounts into a framework for describing supply and demand in the securities markets. The third section discusses the rate of interest. The framework presented in the second section is then used to discuss the effects of monetary and
fiscal policy and of inflation, particularly on interest rates and securities prices.

Liquidity Management and Assets-Liabilities Strategy
Hrishikes Bhattacharya

in Banking Strategy, Credit Appraisal, and Lending Decisions: A Risk-Return Framework

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Publisher: Oxford University Press
DOI: 10.1093/acprof:oso/9780198074106.003.0002
Item type: chapter

This chapter discusses liquidity management theories such as the commercial loan theory, shiftable theory, and anticipated income theory. It assesses the reasons for most liquidity problems of banks, highlights the need for liquidity planning, and presents a liquidity model for banks. It shows that liquidity management in a bank is closely linked with its assets-liabilities strategy. A fully matched position is ideal — a self-liquidating balance sheet — but this is not observable in real life, because of the conflicting objectives of a bank and its borrowers, nor is it desirable due to its negative impact on profitability; a reasonable level of mismatch enhances profitability.

Introduction
Hendrik S. Houthakker and Peter J. Williamson

in The Economics of Financial Markets

Published in print: 1996 Published Online: November 2003
Publisher: Oxford University Press
DOI: 10.1093/019504407X.003.0001
Item type: chapter

This introductory chapter begins by explaining what the book is about. It then goes on to define financial markets and financial instruments, and to outline the basic concepts of accounting – the balance sheet, the cash flow statement, and the income statement. The book is mostly concerned with financial markets in the narrow historical sense of a market as central trading place (e.g., stock exchanges and the futures market); other important financial markets, notably those in government bonds, foreign currencies, and over-the-counter stocks, are also included since although they do not have central trading places, they share many of the features of markets in the narrow sense. Financial instruments are defined as readily negotiable claims, and include bonds, shares, futures contracts, and options; since futures and options differ in essential ways
from securities – equities (shares or stocks), bonds, and other similar financial instruments – and are traded in different markets, they are called ‘derived financial instruments’, or ‘derivatives’.

Financial Fragility in the Corporate Sector
E. Philip Davis

Financial Fragility in the Corporate Sector
E. Philip Davis

in Debt, Financial Fragility, and Systemic Risk

Published in print: 1995 Published Online: November 2003
Publisher: Oxford University Press
DOI: 10.1093/0198233310.003.0003
Item type: chapter

This chapter assesses the causes and implications of trends up to the early 1990s in debt and default in the corporate sectors of the major OECD countries, namely the USA, UK, Canada, Germany, Japan, and France. The data show a sharp rise in defaults in the Anglo-Saxon countries and France over the 1980s, which is echoed only partially in Germany and in Japan. These patterns in turn can be related to changes in corporate indebtedness, modified by the nature of financial systems; the main reasons for such shifts are examined. The chapter is structured as follows; the first section presents balance-sheet data for the corporate sector in the six countries. The second offers an outline of theories of corporate debt and balance-sheet structure as presented in the literature, in particular, as they relate to default. The third probes the nature of default, its costs, and implications. The analysis of this section has broader applications to both households and financial institutions. The fourth and fifth sections interpret empirical patterns (levels and changes in leverage) in the light of theory, while the sixth seeks to estimate the empirical relationship between debt and default. Interim conclusions are drawn and some policy implications are suggested in the final section.

Toward the Development of Sectoral Financial Positions and Flows in a From-Whom-to-Whom Framework
Manik Shrestha

in Measuring Economic Sustainability and Progress

Published in print: 2014 Published Online: May 2015
Publisher: University of Chicago Press
DOI: 10.7208/chicago/9780226121475.003.0013
Item type: chapter

The global crisis of 2008 highlighted the importance of understanding financial interconnectedness among the various sectors of an economy.
and between them and their counterparties in the rest of the world. In addition, the financial interconnectedness is also to be understood as an integral part of the linkages between real and financial economies. Although the System of National Accounts (SNA) provides an overarching framework for the development of such macroeconomic statistics, application of this kind of analysis has been hampered by the lack of adequate data. This chapter reviews the attributes of the SNA as a framework for integrated macroeconomic accounts, explores application of SNA principles for developing data on inter-sectoral financial linkages, reviews some important experiences that may be of use in the development of fully integrated macroeconomic accounts, and outlines activities and steps to implement sectoral accounts and balance sheets, including sectoral financial positions and flows in a from-whom-to-whom framework.

Heritage institutions and the economy
Alan Peacock and Ilde Rizzo

in The Heritage Game: Economics, Policy, and Practice
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Publisher: Oxford University Press
Item type: chapter

Government-financed services can only be efficiently carried out if there is a full understanding of how they are planned and run, and heritage services are no exception. Evidence of what is planned and how far plans are fulfilled, as with private production, can be built round preparation of a budget and associated accounts. These display how finance is obtained and how it is spent both on current operations and capital spending. However, the use of conventional accounting presentation can be no more than a check on whether finance is used for what it is intended. A private concern can pinpoint its degree of success by whether it is expected and actual profits will satisfy its shareholders. No such indicators can be found in the accounts of non-profit-making concerns, but finding substitutes is not a simple matter. Moreover, in the case of heritage services, several types of finance — private such as charges and subscriptions and public, such as loans and grants — create an intriguing network of relationships between their managers on the one hand and government, the public, and benefactors on the other.
This chapter provides evidence that credit card securitizations do not transfer as much risk as a literal interpretation of such structures might imply. It is argued that the existence of special purpose vehicles (SPVs) depends on implicit contractual arrangements that avoid accounting and regulatory impediments to reducing bankruptcy costs. It outlines the significant features of securitization SPVs. Securitization is a significant and growing phenomenon. The simple model of off-balance sheet financing has the unique ability to find high-quality projects for the bank by making an effort. It is suggested that the risk of a sponsoring firm should impact the risk of the asset-backed securities that are issued by its SPVs. Riskier firms are more likely to securitize though the effect is not always monotonic, depending on the specification. The efficient use of off-balance sheet financing is facilitated by an implicit arrangement, or contractual relations, between sponsoring firms and investors.
Applications of Traditional Valuation Methods
David B. Audretsch and Albert N. Link

in Valuing an Entrepreneurial Enterprise

Published in print: 2012 Published Online: May 2012
DOI: 10.1093/acprof:oso/9780199730377.003.0005
Item type: chapter

This chapter illustrates through examples the implementation of traditional valuation methods. The illustrations are based on hypothetical income and adjusted income statements and balance sheets and adjusted balance sheets. A step-by-step template is offered, based on these hypothetical financial statements, on how to implement traditional valuation methods.

Central Banking during the Great Recession
Francesco Papadia and Tuomas Välimäki

in Central Banking in Turbulent Times

Published in print: 2018 Published Online: April 2018
DOI: 10.1093/oso/9780198806196.003.0003
Item type: chapter

Monetary policy before the Great Recession rested on three unacknowledged assumptions: first, the central bank could effectively control a short-term rate; second, this short-term rate had a stable relationship with longer/riskier rates; third, the central bank could move the short-term rate up or down as needed. In one or the other phase of the Great Recession one or more of these assumptions no longer held. The Fed and the ECB reacted to these difficulties, adding balance sheet management to their weaponry. After the failure of Lehman Brothers, measures of financial stress exploded and the banking sector was affected by an acute lack of liquidity, large losses, a disproportion between diminished capital and a riskier balance sheet, low profitability, enhanced competition of shadow banks, deleveraging, and difficulties in raising new capital. The Fed and the ECB could address some, but not all, of these problems.
This chapter discusses situations where a firm cannot be valued as a going concern. In such cases, value of all assets, both tangible and intangible, are viewed as being put to their most productive alternative uses. In this context, their earning power is assumed to be higher in some applications other than the current business where they are employed, so their effects on the modified income statement are disregarded. The chapter focuses on an extended Balance Sheet that includes all intangibles.