Banks and the Stock Exchange

Saturday, 21 November 2015 5:06 pm

Central banks

Role: Maintain economic stability

1. **Operate monetary policy**, by changing the interest rates and money supply
    1. Reduce interest rates - high expenditure, economic growth
    2. Increase interest rates - high saving, slow down economic notes
2. **Issue notes and currency**
3. **Lender of last resort**
    1. prevent banks from going bankrupt
4. **Operate exchange rates** : foreign currencies
5. **Banker for commercial banks**: regulating their conduct

Commercial banks

Role: Bring together depositors and borrowers. (Households and firms.)

they are for profit

1. They **provide loans** to HH and firms
2. **Receive and make payments**
3. **Save deposits** safely.
4. Affect the circular flow diagram by loaning more or less money. Inject money into the circular flow
5. **Create money** through debt
6. **Money exchange**, FX dealers.

Stock Exchange

Role: provide a place where buyers and sellers exchange ownership of company

1. Enables individuals, companies, and governments to buy and sell loan stocks and company shares on the global stock market
2. It **encourages economic growth** by increasing goods and services
3. It **raises money** for firms

Spending / Saving / Borrowing Patterns

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Spending:

1. **Interest rates** (if there are high interest rates, consumers would tend to spend less but it would be the opposite with low interest rates)
2. High **consumer confidence** in the future (prices will stay relatively low or prices will decrease etc.)
3. **Income**: higher income usually means more money being spent
    1. but it depends on the individual (some might save more if they have a higher income)
4. **Wealth**: spending will increase with higher wealth, again depending on the person.

Saving:

1. **Disposable Income**: Disposable income is the amount of money you have after paying tax. Depending on the amount of money you have left, people would usually want to save for basic needs about also for future investments for example.
2. **Wealth**: If someone has a lot of money, they would save money for their future investments and for children and family. If they have less money, they would spend money on basic needs so they would have less savings.

Borrowing:

1. **Interest Rate**: The lower the interest rate, then people would borrow more money, but if the interest rate is higher, than there is a less chance of people borrowing money.
2. **Income**: The higher the income, the less people would usually borrow, but the lower the income, then people would borrow money over time.
3. **Consumer Confidence**: If someone is confident with status then they might spend too much money on unnecessary products, which might lead to having less money and this can lead to people borrowing money.
4. The disadvantage about borrowing money is that you have to pay back the amount plus the interest rate, and if not, then there are serious issues with the law.