

A

alternative minimum tax, 240
 angels, 182
 Athenian owl, 20–21
 automatic stabilizers, 240

B
 bailout, 240
 balance of payments, 220–221, 240
 balance of trade, 214–218, 240
 Balanced Budget Amendment, 106, 240
 bank deposits, 138, 160
 bank failures, 116–117, 240
 bank runs, 136, 240, 243
 banknotes, 28–29
 bankruptcy, 240
 banks
 cash on hand, 136
 commercial banks, 241
 early banks, 176–177
 FDIC (Federal Deposit Insurance Corporation), 243
 Glass-Steagall Act (1933), 244
 interbank lending rate, 164
 interest rates of, 162–163
 LIBOR (London Interbank Offered Rate), 245
 overnight loans by, 164
 prime rate, 246
 short-term loans, 176
 small businesses and, 176
 See also reserves

barter, 12–17, 40, 240
 Boeing, 204
 bond yields, 240–241
 bonds
 definition of, 240
 Fitch Ratings, 243
 foreign investment in U.S., 220
 investment banks and, 180
 junk bonds, 245
 Moody's, 245
 origins of, 176
 railroads and, 178
 Standard and Poor's, 247
 stocks compared to, 242
 See also government bonds
 booming economies, 50
 borrowing. *See* consumer borrowing;
 federal borrowing

bubbles, speculative, 200–201, 241
 business cycle, 62, 124, 241
 business investment, 46
 business taxes, 239

C

CAC40, 241
 calls, 196, 241
 capacity, 241
 capital, 241
 capital flows, 208–209
 capital gain, 241
 capital gains taxes, 74
 central bank, 241
 Chapter 7 bankruptcy, 240
 Chapter 11 bankruptcy, 240
 checking accounts, 34–36
 coins, 20–21
 collateralized debt obligation (CDO), 241, 248
 commercial bank, 241
 Congress, 70–71, 80–81
 Conservatives, 62, 65, 90
 consumer borrowing, 146–149
 consumer spending
 definition of, 46
 deflation and, 60–61
 during Great Recession, 65
 money supply and, 125
 multiplier effect, 246
 consumption, 241
 consumption tax, 78–79, 241
 Continentals, 28
 corporate taxes, 72
 corporations, large, 180–181
 credit default swaps, 198–199, 241, 248
 currency, 22–23, 241
 currency manipulation, 224–225, 241
 cyclical deficit, 242

D

debt
 collateralized debt obligation (CDO), 241, 248
 European debt crisis (2011), 237
 toxic debt, 115
 See also federal debt
 deficit
 cyclical deficit, 242
 definition of, 94
 structural deficit, 247
 trade deficit, 214, 216–218, 220–221
 deflation, 60–61

demand

Conservatives and, 62
 creation of, 62
 economic growth and, 62
 during Great Recession, 65
 interest rates and, 56
 Liberals and, 62
 derivatives, 196–199, 242
 discount rate, 242
 discount window, 118–119, 136, 162, 242
 discretionary spending, 110, 242
 Dodd-Frank Reform Act (2010), 242
 dollar (U.S.)
 amount in circulation, 38
 consequences of strength/weaknesses in, 238
 foreign demand for, 32–33, 38
 gold standard and, 32
 origins of, 30–31
 value of, 220–224
 Dow Jones Industrial Average, 242

E

economic events, consequences of, 237–239
 economic growth
 booming economies, 50
 business cycle, 62
 changes in spending and taxes, 90
 definition of, 242
 demand and, 62
 federal borrowing and, 98
 Federal Reserve Bank and, 62
 federal spending and, 82–87, 90–91
 federal taxes and, 86, 90, 108
 GDP and, 44–51
 goldilocks economy, 244
 during Great Depression, 43, 64
 during Great Moderation, 43
 during Great Recession, 43, 64–65
 housing market and, 64
 inflation rate and, 44
 infrastructure projects and, 98
 interest rates and, 170
 Keynesians, 245
 monetarists, 245
 money supply and, 62, 90, 125
 nominal growth, 54
 overheating in, 50–53, 56
 productivity and, 44, 54–55
 stagflation, 247
 stimulation of, 62, 65

stimulus spending, 82–87, 247
 supply-side economics, 248
 unemployment rate and, 44
 in U.S. vs. emerging markets, 43
 electronic money, 36–37, 39, 242
 emerging markets
 definition of, 242
 economic growth in, 43
 during Great Recession, 65
 employment rate
 deflation and, 60
 inflation and, 52
 overheating and, 50–53
 recession and, 58–59
 entitlements, 110–111, 242
 equity, 242
 ETF (exchange traded fund), 242
 Europe and Great Recession, 65
 European debt crisis (2011), 237
 exchange rates, 218–219, 224–225, 242
 excise taxes, 72, 243
 exports
 balance of trade and, 214
 dollar, value of, 222
 European debt crisis (2011) and, 237
 federal borrowing and, 100
 spending on, 46

F

Fannie Mae (Federal National Mortgage Association), 243
 FDIC (Federal Deposit Insurance Corporation), 243
 Fed (Federal) funds rate, 164–165, 243
 federal borrowing
 advantages/disadvantages of, 98–101
 Congressional limits on, 106
 economic growth and, 98
 imports and exports and, 100
 for infrastructure projects, 98
 interest rates and, 100
 mechanisms enabling, 96–97
 during a recession, 98
 federal debt, 92–113
 ceiling on, 104
 definition, 243
 entitlements, 110–111, 242
 GDP and, 102–105
 historical levels, 93, 94–95, 102–103
 interest on, 100, 110
 limit on, 243
 Medicaid program, 110, 112–113
 Medicare program, 110, 112–113
 reducing, 108–109
 Social Security program, 110–112
 Treasuries, 248
 federal deficit/surplus, 243
 federal income taxes, 74–75, 76, 239
 Federal Open Market Committee (FOMC)
 definition of, 243
 members of, 132
 monetary policy and, 134
 money supply and, 128, 140, 154
 purpose, 128
 Federal Reserve (the Fed), 114–173
 bank deposits and, 138, 160
 bank failures and, 116–117
 consequences of buying government bonds by, 134, 140–153, 239
 consequences of selling government bonds by, 134, 139, 154–161, 239
 discount window of, 118–119, 136, 162, 242
 economic growth and, 62
 Fed funds rate, 164–165, 243
 in financial crisis of 2007–2009, 115–116
 fiscal policy and, 122
 functions of, 115, 118–120
 Governors of, 128, 132–133
 during Great Recession, 64–65
 interest rates and, 56, 162
 international payments and, 134–135
 long-term interest rates and, 166–172
 monetary policy and, 120–132
 money supply and, 68–69, 122–126, 134–152, 162, 164
 overheating and, 56, 154
 purpose, 115
 quantitative easing by, 246
 regional banks, 128, 130–132
 short-term interest rates and, 164, 166–172
 Federal Reserve Bank of New York
 bank reserves and, 164, 245
 international payments and, 134–135
 money supply and, 140–142, 154–161
 Federal Reserve Board, 128, 132
 Federal Reserve System, 128, 243
 federal spending, 80–91
 Balanced Budget Amendment, 106, 240
 Congress, role of, 80–81
 consequences of cuts, 108–109, 238
 consequences of increases, 239

- Conservatives and, 90
 - decision-making about, 80–81, 84
 - deficits and, 94
 - definition of, 46
 - discretionary spending, 110, 242
 - economic growth and, 82–87, 90–91
 - federal taxes and, 88
 - GDP and, 82–83, 85
 - mandatory spending, 110, 245
 - medical technology and, 112
 - multiplier effect and, 82, 86
 - during recession, 86
 - stimulus spending, 82–87, 247
 - federal taxes, 70–79
 - business taxes, 239
 - capital gains taxes, 74
 - Congress, role of, 70–71, 80–81
 - consequences of cuts in, 86, 239
 - control over, 70–71
 - corporate taxes, 72
 - economic growth and, 86, 90, 108
 - excise taxes, 72, 243
 - federal spending and, 88
 - House Ways & Means Committee, role of, 70, 244
 - income taxes, 74–75, 76, 239
 - inflation and, 88–89
 - Medicare taxes, 72, 74
 - mortgage interest deduction, 76
 - payroll taxes, 72, 112, 246
 - personal savings and, 78
 - President, role of, 70
 - progressive taxes, 74, 248
 - raising, 88, 108
 - regressive taxes, 248
 - on the rich, 74–75, 76
 - Senate Finance Committee, role of, 70, 247
 - Social Security taxes, 72, 74
 - sources of, 72–73
 - tariffs, 72, 248
 - Federal Trade Commission (FTC), 243
 - fiat money, 30, 243
 - finance, 174–201
 - angels, 182
 - bonds, 176, 178, 180
 - corporations, large, 180–181
 - derivatives, 196–199, 242
 - hedge funds, 192–194, 244
 - high-tech companies, 182–183
 - initial public offering (IPO), 182–183, 238, 245
 - investment banks, 180–181, 182, 237, 245
 - leverage, 188–189, 245
 - mutual funds, 246
 - New York Stock Exchange, 178, 246
 - origins of, 175–176
 - price/earnings ratio, 200
 - private equity funds, 194–195, 246
 - railroads and, 178
 - shorts, 190–191
 - sovereign wealth funds, 247
 - speculative bubbles, 200–201, 241
 - stocks, 176, 178, 180, 242
 - trade and, 175
 - venture capital, 182–183, 249
 - financial and capital account, 243
 - financial crisis of 2007–2009
 - causes of, 184–187
 - credit default swaps, role of, 248
 - Federal Reserve in, 115–116
 - interest rates and, 184
 - money supply and, 185, 190
 - TARP (Troubled Asset Relief Program), 248
 - too big to fail, 248
 - financial flows, 208–209
 - financial instrument, 243
 - fiscal policy
 - definition of, 67, 68, 243
 - Federal Reserve and, 122
 - See also federal taxes; federal spending
 - Fitch Ratings, 243
 - flat tax, 76–77, 243
 - foreign direct investment, 206, 243
 - forwards, 196, 244
 - Freddie Mac (Federal Home Loan Mortgage Corporation), 244
 - FTSE 100, 244
 - futures, 244
- G**
- G-8, 232, 244
 - G-20, 232–233, 244
 - GDP (gross domestic product), 44–51
 - constituents of, 46–47
 - definition of, 45, 244
 - economic growth and, 44–51
 - federal borrowing and, 102–105
 - government spending and, 82–83, 85
 - during Great Depression, 43
 - growth in, 48–50, 54, 82, 102
 - multiplier effect and, 82
 - Glass-Steagall Act (1933), 244
 - globalization, 202–236
 - advantages/disadvantages, 210–211
 - balance of payments, 220–221, 240
 - balance of trade, 214–218, 240
 - capital flows, 208–209
 - currency manipulation, 224–225, 241
 - definition of, 204–205, 244
 - dollar, value of, 220–224
 - exchange rates, 218–219, 224, 242
 - financial flows, 208–209
 - foreign direct investment, 206, 243
 - G-8, 232, 244
 - G-20, 232–233, 244
 - inflation and, 212–213
 - International Monetary Fund (IMF), role of, 230–231, 245
 - stocks and bonds, 220–221
 - trade deficits, 214, 216–218, 220–221
 - trade surpluses, 216
 - World Bank, role of, 228–229, 249
 - World Economic Forum, role of, 234, 249
 - World Trade Organization (WTO), role of, 226–227, 249
 - gold, price of, 238
 - gold bugs, 20
 - gold standard, 52
 - goldilocks economy, 244
 - goldsmiths, 24–27
 - government bonds
 - Federal Reserve buying of, 134, 140–153, 239
 - Federal Reserve selling of, 134, 139, 154–161, 239
 - Fed funds rate and, 164–165
 - interest rates and, 156, 249
 - Great Depression, 43, 64
 - Great Moderation, 43
 - Great Recession, 43, 64–65
 - greenbacks, 30
- H**
- haircut, 244
 - hedge funds, 192–194, 244
 - high-tech companies, 182–183
 - House Ways & Means Committee, 70, 244
 - housing market
 - collateralized debt obligation (CDO), 241, 248
 - economic growth and, 64
 - Fannie Mae (Federal National Mortgage Association) in, 243
 - during financial crisis of 2007–2009, 185
 - Freddie Mac (Federal Home Loan Mortgage Corporation), 244
 - mortgage interest deduction, 76
 - mortgage loans, 185, 245
 - mortgage-backed securities, 186, 198, 245
 - subprime mortgages, 185, 198, 247
 - housing prices, 200
- I**
- imports
 - balance of trade and, 214
 - federal borrowing and, 100
 - quotas, 246
 - income taxes, federal, 74–75, 76, 239
 - index
 - CAC40, 241
 - definition of, 244
 - FTSE 100, 244
 - NIKKEI Index, 246
 - SENSEX, 247
 - S&P 500, 244, 247
 - STOXX Europe 600, 247
 - VIX, 249
 - inflation
 - definition of, 244
 - economic growth and, 44
 - employment rate and, 52
 - federal taxes and, 88–89
 - globalization and, 212–213
 - interest rates and, 172–173
 - money supply and, 124, 126
 - overheating and, 52
 - productivity and, 54
 - rate of, 44, 52
 - trade and, 212–213
 - infrastructure projects, 98
 - initial public offering (IPO), 182–183, 238, 245
 - interbank lending rate, 164
 - interest on federal debt, 100, 110
 - interest on reserves, 245
 - interest rates
 - balance of payments and, 220
 - of banks, 162–163
 - consequences of rises in, 238
 - demand and, 56
 - dollar value and, 220
 - economic growth and, 170
 - Fed funds rate, 164–165
 - federal borrowing and, 100
 - Federal Reserve and, 56, 162
 - financial crisis of 2007–2009, 184
 - government bonds and, 156, 249
 - inflation and, 172–173
 - LIBOR (London Interbank Offered Rate), 245
 - long-term, 166–172
 - money supply and, 125
 - overheating and, 56
 - prime rate, 246
 - quantitative easing, 246
 - recession and, 170
 - short-term, 164, 166–172
 - yield curve, 249
 - International Monetary Fund (IMF), 230–231, 245
 - international payments, 134–135
 - Internet, barter and, 40
 - investment banks, 180, 182, 237, 245
 - invisible money, 136–138
- J**
- junk bonds, 245
- K**
- Keynesians, 245
- L**
- labor force, annual growth in U.S., 50
 - leverage, 188–189, 245
 - Liberals, 62, 65
 - LIBOR (London Interbank Offered Rate), 245
 - liquidity, 22
 - loans
 - home mortgage loans, 185
 - interbank lending rate, 164
 - by IMF, 230–231
 - mortgages, 245
 - overnight loans, 164
 - securitization, 247
 - short-term loans, 176
 - subprime mortgages, 185, 198, 247
 - Treasuries, 248
 - by World Bank, 228–229, 249
 - long-term interest rates, 166–172
- M**
- mandatory spending, 110, 245
 - Medicaid program, 110, 112–113
 - medical technology, 112

Medicare program, 110, 112–113
Medicare taxes, 72, 74
mercantile exchanges, 245
monetarists, 245
monetary policy
 business cycle and, 124
 consumer borrowing and, 146–149
 definition of, 122, 245
 Federal Open Market Committee (FOMC) and, 134
 Federal Reserve and, 120–132
 Federal Reserve Bank of New York, 134
 purpose/goal of, 148
money, 10–41
 banknotes, 28–29
 before money existed, 12–17
 checking accounts, 34–36
 coins, 20–22
 in colonial America, 28–29
 creation of, 142–146, 152–153, 246
 currency, 22–23, 241
 destruction of, 139
 dollars, 30–32, 38
 electronic money, 36–37, 39, 242
 fiat money, 30, 243
 greenbacks, 30
 invisible money, 136–138
 liquidity, 22
 origins of, 18
 paper money, 24–27, 38
 printing of, 138
 Treasury notes, 30, 248
 warehouse receipts, 18–20
money multiplier, 246
money supply
 consumer spending and, 125
 decreasing, 139, 154–161
 definition of, 245
 economic growth and, 62, 90, 125
 Fed funds rate and, 164–165
 Federal Open Market Committee (FOMC) and, 128, 140, 154
 Federal Reserve and, 68–69, 122–126, 134–152, 162, 164
 Federal Reserve Bank of New York and, 140–142, 154–156
 before/during financial crisis of 2007–2009, 185
 increasing, 140–152
 inflation and, 124, 126
 interest rates and, 125
 invisible supply, 136–138

 quantitative easing, 246
 recession and, 125
Moody's, 245
moral hazard, 245
mortgage, 245
mortgage interest deduction, 76
mortgage-backed securities, 186, 198, 245
multiplier effect, 82, 86, 246
mutual fund, 246

N

NASDAQ, 246
New York Stock Exchange, 178, 246
NIKKEI Index, 246
nominal growth, 54

O

options, 196, 246
overheating
 cooling down, 56–57
 dangers of, 52
 employment rate and, 50–53
 Federal Reserve and, 56, 154
 inflation rate and, 52
 interest rates and, 56

P

paper money, 24–26, 38
payroll taxes, 72, 112, 246
personal savings, 78
prime rate, 246
private equity funds, 194–195, 246
productivity
 definition of, 54, 246
 economic growth and, 44, 54–55
 growth in, 54
 inflation and, 54
progressive taxes, 74, 248
puts, 196, 246

Q

quantitative easing, 246
quants, 246
quotas, 246

R

railroads, 178
recession
 average length of, 64
 Balanced Budget Amendment, 106
 causes of, 58
 definition of, 58, 247

employment rate and, 58–59
ending a, 62–63
in Europe, 237
federal borrowing during, 98
federal spending during, 86
Great Recession, 43, 64–65
interest rates and, 170
money supply and, 125
tax receipts during, 98
in United States, 43
regressive taxes, 248
reserve requirements, 140, 247
reserves
 Federal Reserve Bank of New York and, 164, 245
 Federal Reserve buying government bonds and, 140–150
 Federal Reserve selling government bonds and, 154–160
 interest on reserves, 245

S

sales tax, 78
securities, 247
securities analyst, 247
Securities and Exchange Commission (SEC), 247
securitization, 247
Senate Finance Committee, 70, 247
SENSEX, 247
shorts, 190–191, 247
short-term interest rates, 164, 166–172
short-term loans, 176
sin taxes, 67
small businesses and banks, 176
Social Security program, 110–112
Social Security taxes, 72, 74
sovereign wealth fund, 247
S&P 500, 244, 247
speculative bubbles, 200–201
spending. *See* consumer spending; exports, spending on; federal spending
spending multiplier, 246
stagflation, 247
Standard and Poor's, 247
stimulus spending, 82–87, 247
stock market
 calls, 196, 241
 consequences of falls in, 238
 credit default swaps, 198, 241, 248
 derivatives, 196–199, 242
 Dow Jones Industrial Average, 242

 forwards, 196, 244
 FTSE 100, 244
 NASDAQ, 246
 New York Stock Exchange, 178, 246
 NIKKEI Index, 246
 options, 196, 246
 puts, 196, 246
 quants, 246
 Securities and Exchange Commission (SEC), 247
 SENSEX, 247
 shorts, 190–191, 247
 S&P 500, 244, 247
 STOXX Europe 600, 247
 swaps, 196–199, 248
 VIX, 249

stocks

 bonds compared to, 242
 definition of, 247
 early American stocks, 178
 foreign investment in U.S., 220
 initial public offering (IPO), 182–183, 238, 245
 investment banks and, 180
 origins of, 176
 securities analyst, 247
 Standard and Poor's, 247
 STOXX Europe 600, 247
 structural deficit, 247
 subprime mortgages, 185, 198, 247
 supply-side economics, 248
 swaps, 196–199, 248

T

tariffs, 72, 248
TARP (Troubled Asset Relief Program), 248
taxes
 alternative minimum tax, 240
 U.S. vs. other developed nations, 108
 consumption tax, 78–79, 241
 flat tax, 76–77, 243
 income taxes, federal, 74–75, 76, 239
 payroll taxes, 72, 112, 246
 progressive taxes, 74, 248
 receipts during a recession, 98
 regressive taxes, 248
 sales tax, 78
 sin taxes, 67
 value added tax (VAT), 249
 See also federal taxes
too big to fail, 248

toxic assets, 248
toxic debt, 115
trade
 barter, 12–17, 40, 240
 finance and, 175
 inflation and, 212–213
 international payments, 134–135
 Manhattan Island, sale of, 22
 warehouse receipts, 18–20
trade deficits, 214, 216–221, 248
trade surpluses, 216, 248
transfer payments, 248
Treasuries, 248
Treasury notes, 30, 248

U

unemployment rate
 definition, 248–249
 economic growth and, 44
 during Great Depression, 64
 during Great Recession, 64–65
United States
 economic growth in, 43
 recessions in, 43
 trade deficits of, 216–217, 220–221

V

value added tax (VAT), 249
venture capital, 182–183, 249
VIX, 249

W

Walmart, 206, 226
warehouse receipts, 18–20
World Bank, 228–229, 249
World Economic Forum, 234, 249
World Trade Organization (WTO), 226–227, 249

Y

yield curve, 249