

Fiscal and Financial System in Japan

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2009/04/14

Objectives

- 1 To understand the relationships between **money (monetary policy) and overall economic performances**
- 2 To examine **the role of central banks** in the economy
- 3 To examine **the actual behavior of central banks**
- 4 To learn **how economist see things**

Textbook and References

- Textbook Mishkin, *The Economics of Money, Banking, And Financial Markets (alternate edition)*, Addison Wesley, 2007.
- References Mankiw, *Macroeconomics (6th revised edition)*, Worth Publishers Inc., 2006.
- Flath, *The Japanese Economy (2nd edition)*, Oxford University Press, 2004.
- Okabe(ed.), *The Structure of the Japanese Economy*, St. Martin's Press, 1995.

Schedule

- 4/21 Interest rates
- 4/28 Behavior of interest rates
- 5/12 Term structure of interest rates
- 5/19 Stock market and rational expectations
- 5/26 System of central banking
- 6/2 Money supply processes
- 6/9 **Midterm Exam**
- 6/16 Tools of monetary policy
- 6/23 Demand for money
- 6/30 Aggregate demand and supply analysis(1)
- 7/7 Aggregate demand and supply analysis(2)
- 7/14 Money and inflation
- 7/21 **Final Exam**

Grading Policy

Midterm Exam	40%	}	Overall Score
+			
Final Exam	60%		

Contacts

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Introduction

What Does Financial Markets Do?

Walter the Widower

With 10,000 yen which he has no plan to spend on for a year

Inez the Inventor

With no cash

but with a plan which she invests 10,000 yen on
and gives her 12,000 yen a year after

If Walter lends his ¥10,000 to Inez,
Inez will earn ¥12,000,
and can pay back ¥10,000 and **extra money of 1,000.**



Interest Payment

If financial markets don't exist, at the end of the year

Walter With ¥10,000

Inez With no cash

If financial markets exist and they trade with each other,
at the end of the year

Walter With ¥11,000

Inez With ¥1,000

} **Both are better-off!**

What Does Financial Markets Do?

Walter (a 55 year-old, established economist)

With ¥20,000,000 which he intends to spend
after his retire at 60

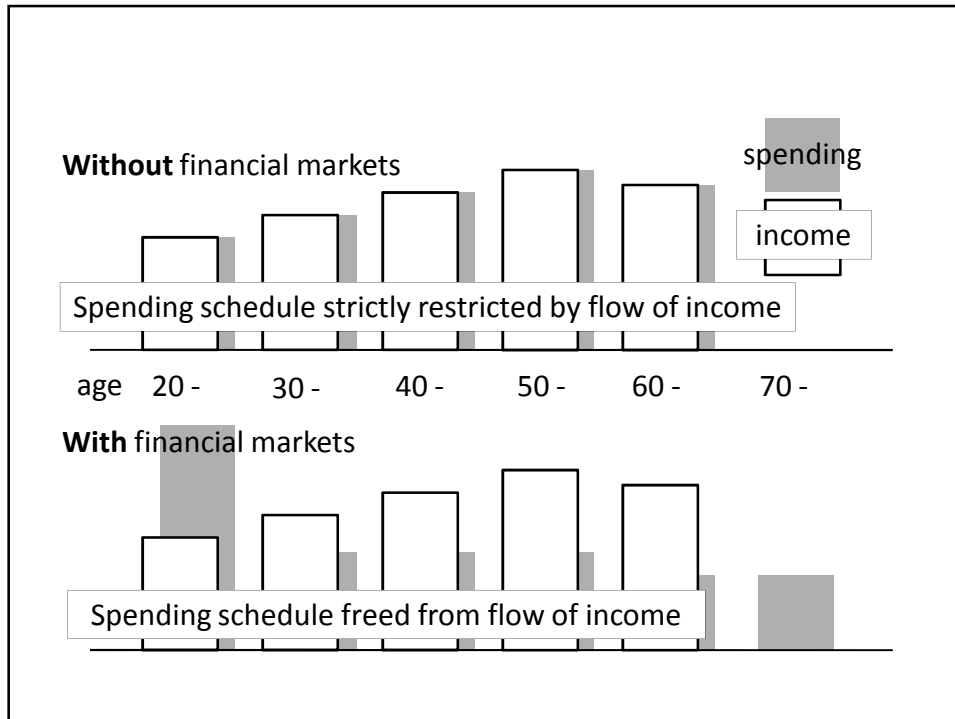
Inez (a 25 year-old, young economist)

With no saving to buy a house of ¥20,000,000,
but will earn ¥25,000,000 for 5 years to come

If Walter lends his ¥20,000,000 to Inez,
Inez can buy a house and enjoy her life,
and can pay back ¥20,000,000 and extra money of ¥2,000,000.



Interest Payment



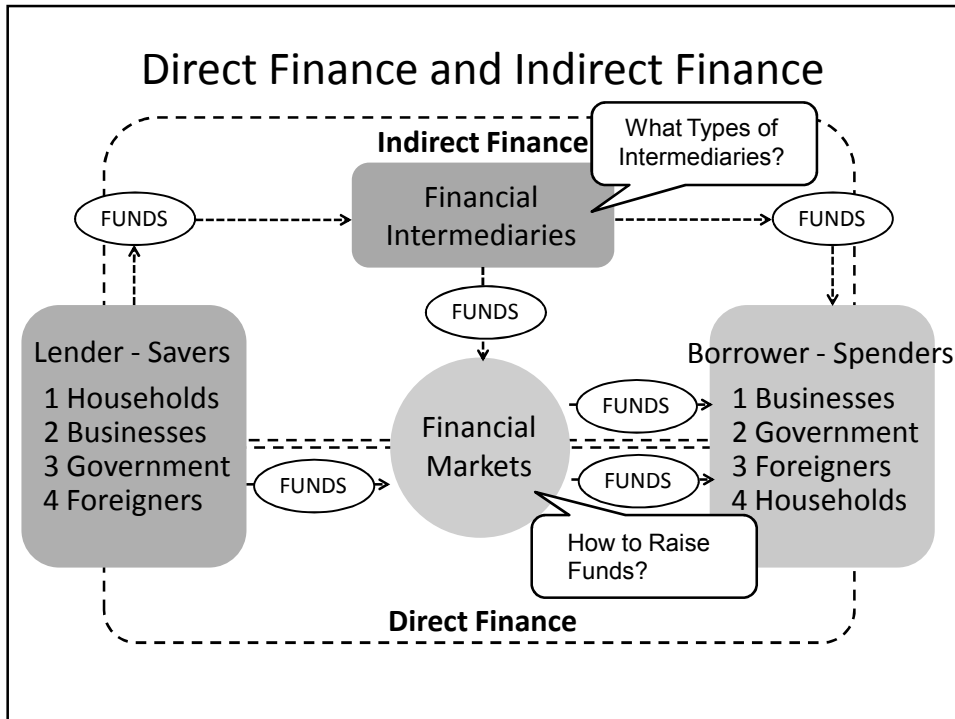
What Does Financial Markets Do?

Production

Financial markets channel funds from less productive use to more productive use, thus increasing the amount of goods or services produced in the overall economy.

Consumption

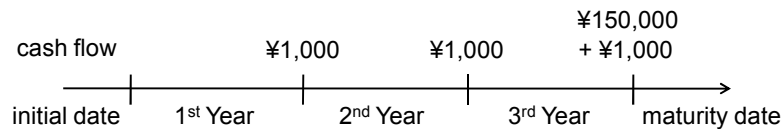
Financial markets liberate our spending schedule overtime from our flow of income, thus expanding the alternatives and making us better-off.



How to Raise Funds in Financial Markets?

1 To Issue a "Debt / Bond"

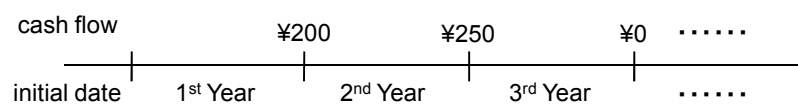
- Fixed amount of money (interests and principal) paid at regular intervals until the maturity date



How to Raise Funds in Financial Markets?

2 To Issue an “Equity”

- “**Dividends**” (not fixed) paid at regular intervals
- **No maturity**
- A **claim** to the share in the net income and the assets of the issuing company



Money and Capital Markets

Money market

Short-term debts (with maturity less than a year) traded

Capital market

Longer-term debts (with maturity of one year or greater) and **equities** traded