

Preface to the Eleventh Edition

As this book on financial institutions and markets enters its eleventh edition, now available for the first time in eBook format, we find ourselves swept into a challenging new century. Jobs by the millions have been lost around the globe, and many high school and college graduates simply can find no gainful employment. Moreover, access to credit (including credit cards) floundered and for many simply dried up. Home ownership has been cruelly snatched away for scores of individuals and families who cannot make their monthly payments. Many of the largest financial-service companies, along with thousands of other businesses from automobile manufacturers to construction companies, struggled and many ultimately failed. Only recently did a ray of hope emerge as the economy's decline seemed to slow and many businesses and consumers were able to back away from the brink of economic and financial disaster.

As we struggle to cope with the consequences of the greatest business recession since the Great Depression of the 1930s, we also find ourselves threatened with more than just economic and financial misfortune. Thousands of innocent people working in the United States lost their lives on 9/11 and thousands more have since fallen to political turmoil and revolution in the Middle East and elsewhere. Disease, drought, and poverty afflict tens of millions, while the war on terror continues to draw our attention, as soldiers and civilians fight and die in Afghanistan, Iraq, Africa, and in other venues around the globe. The proliferation of nuclear weapons among nations confronts us with a possible global catastrophe as several neighboring countries threaten each other with annihilation if events don't go their way. The United States and many other nations in Europe, Asia, and the Americas struggle with the heavy costs of fighting for freedom and security, unprecedented business and government deficits, and grave uncertainty about the future quality of life we may experience.

Many of us thought the rapid spread of *technological innovation*—cell phones, computers, satellites, and much more—would open up instantaneous communication everywhere around the planet, improving universal education and bringing us all closer together. It doesn't appear to have happened that way. Rather, the fundamental values most of us cherish—such as liberty, integrity, respect for the law, and respect for the rights and property of all citizens—continue to be under assault on nearly every continent. We have fallen short of where we want our world to go, and it's not clear whether we are at least moving in the right direction.

It used to be that the one great institution we could rely upon for financial services—the vast marketplace of financial institutions and financial markets that girdles our globe and serves millions daily—was somehow refreshingly different. The *financial system* seemed to be a safe haven in our tumultuous world. While the rest of the economy was often in turmoil, the critical elements of our financial system—the banks, securities brokers and dealers, insurance companies, finance companies, and thousands of other financial-service providers—were rocks of stability, a place of refuge for all. And this was fortunate, for the great system of financial institutions and markets provides us with virtually irreplaceable services that few of us can do without, including:

- A *supply of credit* through which we can borrow funds to supplement our incomes and support our standard of living.

- A *reservoir of savings*, through which we can set aside financial reserves to draw upon for a “rainy day,” placing those savings in attractive financial instruments until the day arrives when we need extra funds.
- The *transformation of savings into investment*, such as the building of new facilities, the acquisition of equipment, stocking shelves with goods to purchase, so that we can find jobs and enjoy decent living standards.
- A *mechanism for making payments* that provides a channel so we can make purchases of goods and services, settle what we owe, so that spendable funds move smoothly and reliably between buyers and sellers.
- The *creation of liquidity*, which ensures that we have spendable funds exactly when they are needed, usually by converting the assets we hold (especially stocks, bonds, and similar financial instruments) into immediately spendable funds.
- The *provision of risk protection* in the form of insurance policies, derivative contracts, and other relatively inexpensive services that may shield us from excessive losses.
- The creation of a *channel for the pursuit of public policy* that permits governments and central banks to apply the tools they possess to stabilize the economy and financial system, pursuing such goals as maximum employment, price stability (absence of serious inflation), and sustainable economic growth.

It’s amazing that only one sector of the economy, the system of financial institutions and markets, performs so many critical tasks—supplying financial services that we can scarcely live without. Yet the past decade has taught us an incredible lesson—that the financial system, like the rest of the economy, can be disrupted, may fail to perform, and can approach bankruptcy. Two major examples appeared in recent years.

The first struck on September 11, 2001, when three jetliners were deliberately flown into New York’s World Trade Center and into the Pentagon Building in Washington, D.C., destroying buildings where thousands of people worked and where more than 3,000 people subsequently died. The offices of a significant number of financial-service providers—including security dealer and broker firms, banks, credit card companies, and insurance firms—were destroyed or damaged, slowing and tangling vital financial transactions. Major financial-service providers, like the New York Stock Exchange, briefly shut down their operations. The public expressed serious concern about the safe recovery of their funds. Consumer spending declined and unemployment rose as the economy slid into a recession. Those financial firms most seriously affected soon reconstructed their records destroyed by fire; their service operations were moved to safer quarters; and the U.S. central bank, the Federal Reserve System, provided a stream of credit flowing into the financial system. By 2003, the recession caused by these terrible acts of terror began drawing to a close, prosperity returned, and the financial sector appeared to return to a more stable mode, demonstrating its incredible capacity for rapid recovery.

The second example of a disrupted financial system appeared in 2008, when the global financial system plunged into the depths of the worst recession since World War II. Stock prices tumbled and key financial-service firms (such as AIG, Bear Stearns, Lehman Brothers, and Merrill Lynch, along with major banks in Europe and the United States) were threatened with failure as many of their loans and investments

(especially mortgage market loans and mortgage-backed securities) turned sour. Faced with limited capital relative to the volume of troubled assets, many of these firms failed or stood on the brink of failure, and ultimately needed government support. The supply of credit to businesses, consumers, and governmental units began to dry up, costing millions of jobs and business closings. Even with government backing, many financial firms drastically reduced their willingness to lend money, whittling away at the volume of consumer credit and pursuing home foreclosures. By 2009 there was at least some evidence that the financial system, along with the economy, was beginning to emerge from the worst downturn since the notorious Great Depression of the 1930s. Once again, the incredible system of financial markets and institutions appeared to be finding its way out of adversity to better serve the public.

These two remarkable events left us with an important lesson about the financial system and its financial institutions and markets: *the financial system of institutions and markets is deeply integrated with the economy as a whole and with the entire globe. When the financial system stumbles, nearly every one of us will feel its impact. Thus, to understand the workings of the financial system we need to know a lot about financial institutions and markets and about the economy and society that surrounds them.*

This book was written to help each of us to learn about the services financial institutions and markets provide. It attempts to teach us how to protect the financial system against disruption and how we can possibly improve the functioning of the financial system for the betterment of all. Clearly this book represents an adventure story—one that asks everyone who traverses through these pages to learn as much as possible about financial institutions and financial markets and the great financial system that embraces them.

Key Features of the Eleventh Edition of Financial Institutions and Markets

Financial Institutions and Markets remains one of the most complete and comprehensive books covering the financial system, exploring and explaining all major types of institutions, markets, and instruments.

This newest edition is extensively updated, especially in its coverage of the great credit crisis of 2007–2009 and the new standards affecting the behavior of the financial system and its institutions.

There are numerous new problems (including quantitative exercises) to solve at the conclusion of many of the chapters.

There is a higher volume of new information contained in the margins of chapter pages with important Web addresses near those areas where related text topics are discussed.

Along with the addition of new boxes of information, the best boxes from previous editions have been extensively updated.

This text is broader in its geographic scope, containing more material from international markets throughout, especially from the European Union and Asia, led by China, South Korea, and India.

There is presentation and discussion of major new laws and financial regulations, including the Economic Recovery Act of 2008, the CARD Act of 2009, the Pension Protection Act of 2006, and the Financial Services Regulatory Relief Act of 2006.

Additional and updated reference articles and research studies have been added to the conclusion of each chapter to encourage research and further inquiry.

There is a focus on developing relatively new financial instruments and institutions, including hedge funds and private equity firms, and new ways of efficiently delivering financial services to the public.

Alternative Strategies for the Use of *Financial Institutions and Markets* as a Learning Tool

Financial Institutions and Markets, currently in its eleventh edition, touches all the important parts of our financial system, including financial marketplaces, financial instruments, and leading financial institutions. The array of chapter material is designed to be adaptable to the requirements of a wide variety of instructors, students, and members of the public with different perspectives. In other words, this text provides several different channels to convey knowledge and assist the reader in many ways to master the field of financial institutions and markets.

Using This Book to Teach a *Financial Institutions* Course

Some departments and instructors employ this text as an essential learning tool for a course devoted primarily to *financial institutions*, including commercial banks and thrifts (savings institutions), investment banks and private equity firms, mutual and pension funds, life and property/casualty insurance companies, finance companies, securities brokers and dealers, and other financial-service firms, to cite several key examples. If this is the educational path you wish to follow, consider using the following chapters as key pillars of a financial institutions course:

Assignment Material for a *Financial Institutions* Course:

- Part 1: The Global Financial System in Perspective
 - Chapter 1: Functions and Roles of Financial Institutions and Markets in the Global Economy
 - Chapter 2: Financial Assets, Money, Financial Transactions, and Financial Institutions
 - Chapter 3: Efficient Markets and Financial Information
 - Chapter 4: The Great Credit Crisis and Reregulating the Financial System (See especially Chapters 1, 2, and 4)
- Part 3: Money Market Institutions, Central Banking, and the Fed
 - Chapter 10: Introduction to the Money Market and Its Institutions
 - Chapter 11: Commercial Banks, Major Corporations, and Federal Credit Agencies in the Money Market
 - Chapter 12: Roles and Services of the Federal Reserve and Other Central Banks around the World
 - Chapter 13: The Tools and Goals of Central Bank Monetary Policy
- Part 4: Financial Institutions: Organization, Performance, and Regulation
 - Chapter 14: Financial Institutions: Commercial Banks
 - Chapter 15: Financial Institutions: Thrifts
 - Chapter 16: Financial Institutions: Nondeposit Intermediaries
 - Chapter 17: Financial Institutions: Regulation
- Part 5: Governments and Businesses in the Financial Markets
 - Chapter 18: Governments Operating in the Financial Markets
 - Chapter 19: Businesses Borrowing in the Financial Markets
 - Chapter 20: The Market for Corporate Stock

- Part 6: Consumers in the Financial Markets
 - Chapter 21: Household Financial Services and Institutions
 - Chapter 22: The Residential Mortgage Market
- Part 7: The International Financial System
 - Chapter 23: International Transactions and Currency Values
 - Chapter 24: International Banking Institutions
- Part 8: Financial Institutions and Markets of the Future
 - Chapter 25: The Future of the Financial System

Using This Book to Teach a Security Markets or Investments Course

Other instructors and readers may prefer a *security markets* or *investments* approach. The emphasis here is on the theory and practice surrounding the money and capital markets and on the instruments traded in these markets, such as corporate and government bonds, common and preferred stock, Treasury bills, Eurocurrency deposits, financial derivatives (including futures and forwards, options and swaps), and scores of other key instruments traded daily in the financial marketplace. Key chapters to give this focus to a course are suggested by the path of chapter material laid out below:

Assignment Material for a Security Markets or Investments Course:

- Part 1: The Global Financial System in Perspective
 - Chapter 1: Functions and Roles of Financial Institutions and Markets in the Global Economy
 - Chapter 2: Financial Assets, Money, Financial Transactions, and Financial Institutions
 - Chapter 3: Efficient Markets and Financial information
 - Chapter 4: The Great Credit Crisis and Reregulating the Financial System
- Part 2: Interest Rates and the Prices of Financial Assets
 - Chapter 5: The Determination of Interest Rates: Competing Ideas
 - Chapter 6: Measuring and Calculating Interest Rates and Financial Asset Prices
 - Chapter 7: Inflation, Yield Curves, and Duration: Impact on Interest Rates and Asset Prices
 - Chapter 8: The Risk Structure of Interest Rates: Defaults, Prepayments, Taxes, and Other Rate-Determining Factors
 - Chapter 9: Interest Rate Forecasting and Hedging: Swaps, Financial Futures, and Options
- Part 3: Money Market Institutions, Central Banking, and the Fed
 - Chapter 10: Introduction to the Money Market and Its Institutions
 - Chapter 11: Commercial Banks, Major Corporations, and Federal Credit Agencies in the Money Market
 - Chapter 12: Roles and Services of the Federal Reserve and Other Central Banks around the World
 - Chapter 13: The Tools and Goals of Central Bank Monetary Policy

- Part 5: Governments and Businesses in the Financial Markets
 - Chapter 18: Governments Operating in the Financial Markets
 - Chapter 19: Businesses Borrowing in the Financial Markets
 - Chapter 20: The Market for Corporate Stock
- Part 6: Consumers in the Financial Markets
 - Chapter 21: Household Financial Services and Institutions
 - Chapter 22: The Residential Mortgage Market
- Part 8: Financial Institutions and Markets of the Future
 - Chapter 25: The Future of the Financial System

Using This Book to Teach a Public Policy or Regulations-Oriented Course

A growing number of teachers in the fields of economics and finance have been emphasizing learning about *public policy issues* and the nature of *regulation in the financial sector*, which often leads to lively discussions about the strengths and weaknesses of government activity within the financial system. The great credit crisis of 2007–2009 has raised anew key policy and regulatory issues that had seemed barren and ignored for more than half a century. Among the key chapters that pursue this area for study and research are:

Assignment Material for a Public Policy or Regulations Course:

- Part 1: The Global Financial System in Perspective
 - Chapter 1: Functions and Roles of Financial Institutions and Markets in the Global Economy
 - Chapter 2: Financial Assets, Money, Financial Transactions, and Financial Institutions
 - Chapter 3: Efficient Markets and Financial Information
 - Chapter 4: The Great Credit Crisis and Reregulating the Financial System
(See especially Chapters 1, 3, and 4)
- Part 3: Money Market Institutions, Central Banking, and the Fed
 - Chapter 10: Introduction to the Money Market and Its Institutions
 - Chapter 11: Commercial Banks, Major Corporations, and Federal Credit Agencies in the Money Market
 - Chapter 12: Roles and Services of the Federal Reserve and Other Central Banks around the World
 - Chapter 13: The Tools and Goals of Central Bank Monetary Policy
- Part 4: Financial Institutions: Organization, Performance, and Regulation
 - Chapter 14: Financial Institutions: Commercial Banks
 - Chapter 15: Financial Institutions: Thrifts
 - Chapter 16: Financial Institutions: Nondeposit Intermediaries
 - Chapter 17: Financial Institutions: Regulation
(See especially Chapters 14 and 17)

- Part 7: The International Financial System
 - Chapter 23 : International Transactions and Currency Values
 - Chapter 24: International Banking Institutions
- Part 8: Financial Institutions and Markets of the Future
 - Chapter 25: The Future of the Financial System

Using This Book to Teach an Internationally Oriented Institutions and Markets Course

For teachers and readers of this important field there is growing recognition that all our major financial markets now cross national borders and our largest financial institutions carry strong international client networks, particularly in Europe, Asia, and South and North America. If you are interested in exploring this *global or international finance dimension*, consider the following chapters as suitable assignment targets:

Assignment Material for an Internationally Oriented Institutions and Markets Course:

- Part 1: The Global Financial System in Perspective
 - Chapter 1: Functions and Roles of Financial Institutions and Markets in the Global Economy
 - Chapter 2: Financial Assets, Money, Financial Transactions, and Financial Institutions
 - Chapter 3: Efficient Markets and Financial Information
 - Chapter 4: The Great Credit Crisis and Reregulating the Financial System
(See especially Chapters 1, 3, and 4)
- Part 3: Money Market Institutions, Central Banking, and the Fed
 - Chapter 10: Introduction to the Money Market and Its Institutions
 - Chapter 11: Commercial Banks, Major Corporations, and Federal Credit Agencies in the Money Market
 - Chapter 12: Roles and Services of the Federal Reserve and Other Central Banks around the World
 - Chapter 13: The Tools and Goals of Central Bank Monetary Policy
- Part 4: Financial Institutions: Organization, Performance, and Regulation
 - Chapter 14: Financial Institutions: Commercial Banks
 - Chapter 15: Financial Institutions: Thrifts
 - Chapter 16: Financial Institutions: Nondeposit Intermediaries
 - Chapter 17: Financial Institutions: Regulation
(See especially Chapters 14 and 17)
- Part 7: The International Financial System
 - Chapter 23: International Transactions and Currency Values
 - Chapter 24: International Banking Institutions
- Part 8: Financial Institutions and Markets of the Future
 - Chapter 25: The Future of the Financial System

The foregoing chapter outlines suggest that there are several different approaches to a financial institutions and markets course. Instructors and readers in general can choose which path to travel as they explore the nature and characteristics of the financial system and reach out to their students.

A Description of This Book's Learning Tools

Chapter after chapter, this text presents the reader with opportunities to learn. These important learning tools can be found as follows:

- Each chapter begins with a statement of *learning objectives* that alert the student or reader about what he or she is expected to master by the time the chapter draws to a close.
- The opening page of each chapter also presents a box entitled *What's in This Chapter? Key Topics Outline*. Thus, the reader knows what concepts and topics he or she is expected to master as each chapter begins.
- Starting with the opening topic and through to the final summary each chapter is divided into *sequentially numbered sections* headed with a descriptive label or title. This organizational feature allows instructors to designate exactly what parts of a chapter they want their students or readers to cover and what they wish to be omitted or delayed for a future assignment.
- As in previous editions, *key terms* are named and defined in each chapter. These important terms and concepts are listed in the left-hand margins in bold near where they are discussed and also presented in bold inside the text itself. Finally, right after each chapter summary, the key terms are listed again along with the numbers of the pages where these terms were first listed and discussed. This latter section is headed *Key Terms Appearing in This Chapter*.
- To offer instructors and students a further opportunity to learn the key terms in each chapter there is a *Financial Institutions and Markets Dictionary* at the back of this text where key terms are listed alphabetically and briefly defined. The chapter or chapters where each dictionary entry appears is indicated.
- Also appearing in the margins are *Key URLs* and *Video Connections* which direct the reader to the availability of supporting material and videos from the Web, so users can learn more about interesting and useful topic areas.
- Periodically, throughout the chapter there are boxes entitled *Questions to Help You Study*. These brief sections contain numbered questions that allow the reader to challenge himself or herself by asking, Did I really learn what I have read so far? Those questions that cannot be satisfactorily answered send up a red flag that rereading and additional thought may be needed.
- In addition to study question boxes, other types of boxes exist in virtually all chapters. These bear such labels as *Financial Developments*, *Ethics in Financial Institutions and Markets*, and *E-Commerce in Financial Institutions and Markets*. The *Financial Developments* boxes present recent developments that update the discussion and present interesting sidelights that contribute to understanding. The *Ethics* boxes raise ethical issues to think about and perhaps discuss in class, including recent scandals in the financial sector. *E-Commerce* boxes focus upon the growing role of electronic communications in reshaping the character and operations of financial institutions and markets.

- *Exhibits, graphs, and specific examples* are presented throughout the text to reinforce what the reader is learning along the way.
- The conclusion of the narrative in each chapter contains a *Summary of the Chapter's Main Points*. Using a bullet-point approach, central ideas and concepts are briefly reasserted as essential reminders of the most important items that have been covered. This is a useful review, especially as exams are scheduled, and they give instructors the elements of a lecture outline that can be the focus for each class session.
- After the chapter summary, there are problems to solve, appearing under the titles *Problems and Issues* and *Web-Based Problems*. These contain the best problems that appeared in earlier editions of this text as well as numerous new and challenging problems contained in this newest version of the text.
- Finally, the end of each chapter presents the familiar *Selected References to Explore*, where up-to-date articles and research studies are listed by authors' names, titles, name of publication where the material appeared, and publication volumes and dates. These not only give the user of this text a chance to expand upon what they have learned, but also the opportunity to prepare term papers and other written assignments if instructors choose to ask students to pursue this material in depth.

Supplementary Material

There are several learning and teaching aids that accompany the eleventh edition of *Financial Institutions and Markets*. These resources can be found on the text Web site at www.mhhe.com/rm11e. Instructor supplements reside under a password-protected section of the text Web site.

Instructor Resources

Instructor's Manual: The instructor's manual reiterates the key terms, key topics, and learning objectives for each chapter, as well as providing a chapter outline. In addition, this supplement provides answers to each chapter's *Questions to Help You Study* and end-of-chapter problems.

Test Bank: The test bank provides assistance in preparing lectures and exams. It consists of different question types such as true/false, multiple-choice, matching key terms, and short answer/calculation.

PowerPoint Presentations: There are PowerPoint presentations available that correspond with each chapter of the text. These may be used as a base for classroom lecture material, or even exams. The presentations contain charts, graphs, examples, and outlines (usually in bullet-point format). Instructors can fairly easily edit or rearrange slide content to meet instructor, classroom, and reader needs.

Student Resources

Chapter Quizzes: There is a true/false and multiple-choice quiz for each chapter, and each quiz contains 10 questions. These quizzes may be used by students to help practice and to assess their knowledge of the material they've read.

Updates from the Field: As new developments occur in the field of financial markets and institutions, the authors will provide readings regarding these developments to keep students informed and up-to-date on issues that arise after this newest edition has gone to press.

Interesting Issues That Appear or Reappear in the Eleventh Edition of *Financial Institutions and Markets*

Many topics and issues, both ones that are new to this text and those that are carried over from earlier editions on an expanded and altered scale, appear in this eleventh edition. Prominent illustrations encompass such important topics as:

- The *great credit crisis of 2007–2009* and the economic calamity that it helped to usher in. (See especially Chapter 4, as well as numerous references to the latest financial crisis throughout the book).
- The *collapse of the home mortgage market, the asset-backed securities market, and the trading of credit derivatives*. (See, in particular, Chapters 4, 8, 9, 19, and 22, and a large number of other references distributed widely in the new text.)
- The *rapid increases in systemic risk and the failure or near-collapse of leading financial-service firms*, such as Bear Stearns, Lehman Brothers, AIG, Washington Mutual, and Merrill Lynch to name a few. (See especially Chapters 1, 4, 8, 14, 16, 19, and 22, and supporting materials from multiple other chapters.)
- The emergence of *regulatory reform* as new rules are sought to protect the global financial system and avoid another calamity to the economy like that of the Great Depression of the 1930s. (See especially Chapters 4, 17, 21, and 25, and several references that appear in numerous places within the new edition.)
- *The development of new monetary policy tools by the Federal Reserve and other central banks around the globe*, including emergency loans of long-term funds, Fed purchases of mortgage-backed securities, and expansion of the Fed's balance sheet. (See, in particular, Chapters 4, 12, and 13.)
- Exploring the possibility of *regulating hedge funds, private equity firms, and other lightly regulated financial institutions in a post-credit crisis world*. (See especially Chapters 4, 15, and 16.)
- The meaning and rapid growth of *CDOs, CMOs, and MBSs* and their sweeping impact on the securitization process and the mortgage loan market. (See, in particular, Chapters 4, 19, 22, and 25.)
- The impact of the great credit crisis of 2007–2009 on *bank failures and the funding of the Federal Deposit Insurance Corporation*. (See especially Chapters 4, 14, and 17.)
- The *increases in government-provided deposit insurance in the United States and other leading countries to strengthen public confidence in the banking system*. (See especially Chapters 4, 14, and 17.)
- The *expanding use of Basel II capital requirements in strengthening bank capital* and heading off future failures comparable to the great credit crisis of 2007–2009 and the Great Depression of the 1930s. (See, in particular, Chapters 4, 14, 17, and 25.)
- *The future fate of FNMA (Fannie Mae) and FHLMC (Freddie Mac)*, leading mortgage market traders, as they respond to Congress' rules converting these mortgage giants into conservatorships and perhaps ultimate closure. (See especially Chapters 4, 22, and 25.)
- *Causes of the great stock market plunge starting during the fall of 2008*. (See, in particular, Chapters 4 and 20.)
- *The resurgence of the two great Asian economies—China and India—and the role of their governments in shaping their recovery*. (See especially Chapters 23, 24, and 25.)

- The *turnaround in personal savings rates in the United States* in the wake of the great credit crisis of 2007–2009, as millions of consumers cut back on spending and debt and sought to build up their savings balances. (See, in particular, Chapters 1, 2, 4, 21, 22, and 25.)
- The *massive deficits in federal, state, and local governments' budgets* in the aftermath of the great credit crisis of 2007–2009. (See especially Chapters 4 and 18.)
- *The effectiveness of government spending financed by borrowing in stimulating the economy and promoting economic recovery.* (See especially Chapters 4 and 18.)
- *Europe's struggles to deal with declining economies, business and household bankruptcies, and losses on home and commercial mortgages* following the rise of the great credit crisis of 2007–2009. (See, in particular, Chapters 4, 23, and 24.)
- *Challenges to the credit-rating industry and its competency and integrity in assigning proper credit ratings to borrowers and informing investors accurately concerning risk exposure.* (See especially Chapters 4, 8, 19, and 21.)

Large numbers of important subjects are reflected and discussed in this newest edition of *Financial Institutions and Markets*. The preceding list merely indicates the breadth and depth of key new areas for study in class and possibly in writing assignments as well.

Our Gratitude to Professors and Other Reviewers for Helping to Improve This Text

We have been fortunate as this book has passed through eleven editions (first as *Money and Capital Markets* and more recently as *Financial Institutions and Markets*) to have an excellent group of professors and instructors, along with reviewers, who have critically reviewed the manuscript and given their best, unbiased evaluations. We wish to acknowledge the valuable suggestions that have made *Financial Institutions and Markets* a better book in so many ways.

We have mentioned the names of several of these professionals in the following paragraphs. However, we worry from time to time that we have mistakenly missed a key contributor. If so, we apologize and hope you will remind us if we have inadvertently bypassed an important contributor. Included among the leading contributors to this book over the years are the following:

James C. Baker, *Kent State University*
 Ivan T. Call, *Brigham Young University*
 Eugene F. Drzycimski, *University of Wisconsin*
 Mona J. Gardner, *Illinois Wesleyan University*
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 Colleen C. Pantalone, *Northeastern University*
 Rick Swasey, *Northeastern University*
 John O. Olienyk, *Colorado State University*

Robert M. Crowe, *American College at Bryn Mawr*
 Joseph P. Ogden, *SUNY, Buffalo*
 Donald A. Smith, *Pierce College*
 Oliver G. Wood, *University of South Carolina*
 Timothy Koch, *University of South Carolina*
 Larry Lang, *University of Wisconsin, Oshkosh*
 Jeffrey A. Clark, *Florida State University*
 James F. Gatti, *University of Vermont*
 Gloria B. Bales, *Hofstra University*
 Ahmed Sohrabian, *California State Polytechnic University at Pomona*

Thomas A. Fetherston, <i>University of Alabama, Birmingham</i>	Bento Lobo, <i>University of Tennessee at Chattanooga</i>
Mary Piotrowski, <i>Northern Arizona University</i>	Tim Michael, <i>James Madison University</i>
Owen K. Gregory, <i>University of Illinois</i>	Walter Perlick, <i>California State University at Sacramento</i>
Thomas Dziadosz, <i>The American College at Chicago</i>	Bill Curtis, <i>Hardin-Simmons University</i>
Tom Potter, <i>University of North Dakota</i>	Shokoofeh Fazel, <i>Montana State University at Billings</i>
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John Hysom, <i>George Mason University</i>	Charles Guez, <i>University of Houston</i>
Frank Ohara, <i>University of San Francisco</i>	Steve Henry, <i>Sam Houston State University</i>
Robert Sweitzer, <i>University of Delaware</i>	Shawn Howton, <i>Villanova University</i>
Donald J. Smith, <i>Boston University</i>	John Kallianiotis, <i>University of Scranton</i>
Jack Aber, <i>Boston University</i>	Joseph Reising, <i>Minnesota State University, Mankato</i>
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Samuel Bulmash, <i>Stockton College</i>	Fred Wu, <i>University of South Alabama</i>
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John Halstead, <i>Southern Connecticut State University</i>	

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 Mark Palermo, *Stony Brook University*
 Brian Kluger, *University of Cincinnati*

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Additional thanks is also owed to John Gibson, who worked diligently to prepare the PowerPoint Presentations, Test Bank, and Instructor's Manual, which are essential supplements to this text.

Several contributing associations and institutions are also owed a vote of gratitude for this book over the years. These include the American Council of Life Insurance, the Canadian Bankers Association, the Chicago Board of Trade, the Credit Union National Association, the Insurance Information Institute, Moody's Investors Service, and Standard & Poor's Corporation.

As we conclude this section of acknowledgments, we offer special gratitude to friends and family, whose support proved essential to bringing this text to a conclusion. The shortcomings that remain must be placed in the lap of the authors, who pledge to continue to strive for a better book in this year and in the years to come.

A Special Note to the Readers of This Book Entering Its Eleventh Edition

We welcome all the readers of *Financial Institutions and Markets*. You are about to begin a long but important journey. It would be difficult to find a more important area of study. Indeed, we pursue many different paths in life; some of us will wind up as artists, economists, engineers, managers, teachers, football coaches, sea captains, airline pilots, street sweepers, brick layers, plumbers, soldiers, politicians, cashiers, door-to-door salespeople, county sheriffs, custodians, astronauts, and many different lines of work.

Yet, *all* of us (with extremely rare exceptions) will be involved continuously in the financial system of institutions and markets, trusting to financial-service institutions the management of our spending accounts, savings, insurance policies, investments, credit accounts, and on and on. Few of us will work in financial services as a profession, but nearly all of us will rely on someone who does provide financial services upon which our lives will depend.

And we will soon learn how changeable the financial institutions and markets really are. They change continuously and put out an enormous volume of new data every day, forcing us to stay abreast of what is happening not just during the tenure of this course of study, but always. Reading this book will help greatly; it will get you started, but cannot be the end of a lifelong journey through the financial marketplace.

The great American poet Robert Frost once penned “we cannot stop here” for we have “promises to keep” and “miles to go before we sleep.” For the sake of your own future success, personally and professionally, the authors ask that you plan to enjoy what you uncover in the pages that follow. However, this book is just the first step in a lengthy journey of learning about financial institutions and markets and their impact on everyday happenings.

As you proceed through these pages set your sights on real *mastery* of the subject. Make the most of the time you spend. Plan for success and pursue your target with determination and persistence, using well-organized study techniques. But how can you accomplish this? How can you discover what you need to know?

First, begin with the *Learning Objectives* and the *Key Topics Outline* that appear on the opening page of each chapter. These are road signs, alerting you to the key questions and issues each chapter will present. They convey what you should *expect to learn* in the pages that follow. It is useful to review the learning objectives and key topics outline as you approach each new chapter, and then revisit them when you are finished reading what has been assigned. Please ask yourself: Did I touch base with each learning objective and key topic as I proceeded through the assigned chapter? If you are not sure about one or more learning objectives and key topics presented, please return to the relevant sections of the chapter. After rereading, ask yourself if the learning objectives or key topics now make sense to you, and if you now feel better informed than before.

As a next step, examine the list of *Key Terms* at the conclusion of each chapter (following the chapter summary). You will find page numbers telling you on what page each key term is defined and discussed. Please return to those pages where key terms that still seem confusing to you are located. We recommend that you draw up a list of these key terms and accumulate them as the assigned chapters and chapter sections go by. This is not a learning device simply to memorize terms, but a serious effort to conquer the language of the financial system, both institutions and markets.

Your ultimate objective is to ensure that the lingo of the financial system of institutions and markets becomes second nature to you. Hopefully, everything you read and hear about the financial marketplace and financial institutions will begin to work for you. You may want to double-check the definition or explanation you've taken down against the meaning of the key terms as they appear in the *Financial Institutions and Markets Dictionary* at the end of this book.

All the chapters contain *Questions to Help You Study* in one or more special boxes. These study questions invite you to pause briefly after reading the preceding pages and simply ask: Do I really understand what I just read? Please try to answer each of the study questions, either verbally to yourself or by writing out a brief answer. Double-check the accuracy of your answers by referring back to the relevant portion of the chapter. You may choose to store your answers for future reference, especially as you get closer to a scheduled exam.

Inside the pages of each chapter are several useful Web sites in the left-hand margins, bearing the label of either *Key URLs* or *Video Connections*. These Web sites give you the opportunity to go beyond what's in the book. Check out what appears to be the more interesting of these sites and learn more about each chapter from a different vantage point. Thus, by reading the text and viewing the material in many of the related Web sites, you are pursuing one of the most famous ideas about how we learn—that *repetition is the key to learning*.

At the conclusion of each chapter are two sets of problems: one entitled *Problems and Issues*, which are usually relatively short and frequently quantitative in nature, and another entitled *Web-Based Problems*, which are generally longer, often with multiple parts, and which require you to explore the Web. These two problem sets add another important dimension to your learning experience in this course. After all, finance is about problem solving, and the better you get at this important skill, the greater your chances for success in this field. As you work through each problem consider saving the solution and the conclusions you reach for future reference.

Situated on the last page of each chapter is a section labeled *Selected References to Explore*. This portion of each chapter provides you with up-to-date reference materials in the guise of published articles and research studies that discuss issues raised in each particular chapter. Many of the articles listed are published on the Web at sites constructed by a publishing house or other publishing entity. These readings usually supply greater depth than this book provides and offer a different opinion where possible. These references constitute a useful method to help the reader achieve mastery over the subject. This is often how you gradually become an “expert” in this field.

Finance in general, and the financial institutions and markets in particular, are moderately difficult fields to master. Still, the field of finance does have its challenges. For this reason *group study sessions* are frequently useful in facing up to the hardest questions, issues, and problems. You might want to investigate the possibilities for forming a group that meets regularly and tackles some of the most difficult questions and areas of the discipline. If you go this way, resolve to be a contributor in these group

sessions and take the lead in helping others. After all, one of the best ways to conquer a new subject is to *teach others*.

Keep in mind that this book has two fundamental purposes: (1) to supply you with an arsenal of *analytical tools* that you can apply to any financial problem so as to make better financial decisions; and (2) to make you feel more comfortable with the *language of the financial marketplace* so you can speak this language with comfort and maximum understanding. A truly successful course of study will develop *both* the tools and the language of the financial system and all its major parts and get you started along the road to mastery and personal success.

This course can be a foundation stone for many promising future careers. Perhaps you have considered becoming a financial manager or CFO of a large corporation; the head of the financial division of an important unit of government; a member of the legislature or of Congress where financial issues are nearly always among the main topics of discussion; a trader (dealer or broker) in securities or derivative contracts; a consultant or adviser to those who wish to enter the global financial marketplace; or an active investor in your own right, striving to build up your own personal wealth and to prepare for a rewarding lifestyle. Wherever your future career path leads you, superior knowledge and understanding of financial institutions and markets will be an essential companion on your journey.

However, as you probably already realize from prior experience with other challenging fields of study, mastering the world of the financial system—both financial institutions and markets—will *not* be easy. In the words of poet Robert Frost, your future success in keeping the “promises” you have made and traveling successfully the many “miles to go” before you reach your goals will depend crucially upon the energy and enthusiasm, the commitment to excellence, and the hard work that you bring to this subject. By any measure we might use, it is a challenge worthy of your best efforts. Good luck and happy days on your journey!

Peter S. Rose

Professor Emeritus of Finance

Texas A&M University

February 2010

Milton H. Marquis

Professor of Economics and Finance

Florida State University