

Study Questions for Gurley and Shaw:

Note: please focus on pages 132-173 (Chapter 5).

1. How do the net-money and gross-money doctrines define the stock of money? What difference does it make for financial analysis whether we adopt a net-money or gross-money perspective? Answer using balance sheets.
2. “In dealings directly between spending units, there is a chronic excess supply of primary securities.” (p150) Why is this? Excess supply means that spending units, in the aggregate, would like to issue more primary securities than they hold. What other kind of asset do spending units want to hold, and why?
3. How does the financial system solve this problem? (cf. p151: “Aside from providing an efficient payments mechanism, it is the function of the monetary system in a growth context to clear the primary security market of excess supply and the money market of excess demand.”) How *else* might the problem be solved? (Hint: how are excess demand and excess supply 'meant' to be eliminated in a market economy?)
4. Money pays a lower return than other financial assets. So why (according to Gurley and Shaw) does anyone want to hold money? (Cf. p152, and p172: “Money is pre-eminently a sanctuary, a haven for resources that would otherwise go into more perilous uses.”)