

Study Questions for Hicks:

Hicks begins, as we have in this course, by thinking entirely about payments, and distinguishing spot from deferred (money from credit). By thinking of a pure credit payment system, he comes to the conclusion that the standard of value function of money is logically prior to the medium of payment function. He continues on to state that “metallic money, if it was to be usable [as medium of payment], depended on a guarantee. In that respect, it does not differ so much from paper money as is often supposed.” What does this passage mean? Is he saying that metallic money is (at least in part) like a kind of high quality third party debt that can be used as offset in a pure credit payment system? (See p. 47)

Hicks moves on (as we have in this course) to the matter of price and market making institutions. On page 51, Hicks says that the rate of interest is like an exchange rate between one sector of the economy that uses a credit system of payment and another sector that uses a cash system of payment. What does he mean by this? Under what circumstances would payments flow across the sectors, so necessitating an exchange rate?

On page 55, Hicks suggests that we think of exchange dealers on the boundary of the two sectors as a kind of bank. He thinks of their essential function as discounting bills for cash, and notes that the scale of their operation is limited by their capital. How does the invention of bank notes, and then bank deposits transferable by check, relax that limitation? (Use balance sheets to help clarify his argument.)

On page 58, Hicks talks about bank lending as “expansion on each side of its balance-sheet.” What is it that disciplines this elasticity? What prevents the bank from expanding its balance sheet to infinity?