

Economics case study essay sample



This paper discusses two economics essays. The first essay describes the ‘Financial System of Canada’ and specifically explains the three main functions of the financial systems of Canada. The second essay discusses the ‘Effectiveness of United States Monetary Policy in Global Financial Crisis with respect to Inflation Rates and Interest Rates’. Examples of other countries are too mentioned for comparison and clarification.

Financial System of Canada

The financial system of Canada comprise of several financial institutions including payments systems, financial systems, credit unions and bank unions. This channel enables the huge investments through expenditure of savings, and also the financial claims and money are settled and transferred. The health of Canadian economic system depends on its stable financial system and continues to develop for better establishment of country’s overall economy (Department of Finance Canada, 2010).

For an efficient operation and safe promotion of Canada’s financial system, the financial markets, other agencies and specially the Bank of Canada work together on various key elements of financial systems and perform the following functions:

1. Liquidity provision to the system
2. Administer settlement systems and major clearing
3. Advices related to policies are given to the federal government for the purpose of developing and designing the existing financial system
4. Banking services are provided to adjoining participants and related financial systems.

5. Collaborate with international bodies as well as domestic bodies which are engaged in issues concerning financial stability (Department of Finance Canada, 2010).

There are various functions of the financial systems of Canada but the three recognized functions are; ' The Canadian Payments Association (CPA), Large Value Transfer System (LVTS) and The Automated Clearing Settlement System (ACSS).

Their description is as follows:

The Canadian Payments Association (CPA) :

In accordance with the Canadian Payments Association Act (CPAA), The Act of Parliament constituted a non-for-profit organization in 1980 which was named as ' The Canadian Payments Association (CPA)'. In 2001, the Act was replaced by ' The CP Act' namely the Canadian Payments Act.

The CPA's services and mandates are to:

1. Operate and establish national systems for settlement and clearing of payments as well as make various arrangements for exchange of payments or making of payments.
2. Facilitate and enhance the settlement and clearing systems related to other financial systems.
3. Make necessary arrangements for the settlement of clearing, exchange and payments.
4. Support, develop and enhance the technologies and new payment methods.

Large Value Transfer System (LVTS) :

On February 4, 1999, the Large Value Transfer Systems (LVTS) was launched. It is operated and organized by the Canadian Payments Association. It is an electronic wire transfer system which is perceived a real-time system through which time-critical payments and large-value payments are continuously and quickly processed throughout the day. The customers and participants are provided with the certainty that their transactions are settled on the same day in the Bank of Canada's books. Specifically, an important role is played by the LVTS in settling the payment obligations of Canadian-dollars which results due to foreign exchange transactions and securities. As the Payment Clearing and Settlement Act (PCSA) govern the LVTS, therefore, the entire operations are overseen by the Bank of Canada.

The Automated Clearing Settlement Systems (ACSS) :

The Canadian Payments Association operates and owns The Automated Clearing and Settlement System (ACSS). This system is basically a deferred net settlement through which all those payments are handled which are delayed and not processed by LVTS. These payments include small value electronic payment items (for instance, pre-authorized credits and debits, automated banking machine transactions and debit cards which are point of sales) as well as paper based payment items (which are generally cheques). The ACSS was examined by the Bank of Canada in 2002 in order to determine the possible chances of ' systemic risk' but the realized by the Governor of Bank that no systemic risk is posed by the ACSS (Bank of Canada, 2010).

Effectiveness of United States Monetary Policy in Global Financial Crisis

The United States monetary policy plays a vital role in such an extreme global financial crisis. The economy of entire nation is influenced through the usage of monetary policy and it is a tool which helps the US National Government in maintaining interest rates and inflation rates. The monetary policy is used to control the availability of money and supply of finance. The entire economic activities are influenced in global financial crisis and there is observed an increase in interest rates and inflation rates which creates a problem for the US Government in controlling the economic circumstances of its country. The main goal and effectiveness of monetary policy in global financial crisis is basically the ‘ macroeconomic stability’ which maintains the level of unemployment, balanced external payments, economic growth, low inflation rates as well as low interest rates. The US Government appointed ‘ Federal Reserve Bank’ or the ‘ Central Bank’ usually administers the monetary policy for better economic prospects and implements several intermediary measures in global financial crisis which helps in stability of inflation rates and interest rates within the country (“ Monetary Policy”).

In global financial crisis, the monetary policy is, indeed, a potent force. Other than US, in Brazil, Poland, Russian Republic and in other countries where the government operations are paid by the printing presses through execution of running full tilt, currency becomes rapidly worthless which results an increase in inflation rates and money supply rapidly expands which results an increase in interest rates and this overall creates a difficulty in buying services and goods for general usage and consumption that is economically perceived as ‘ hyperinflation’ and ‘ hyperinterest’ or in other words, ‘

extreme high levels of inflation’ and ‘ extreme high levels of interest’. Due to monthly inflation rates up to 30% to 40%, hard goods are bought by the citizens upon receipt of their regular currency payments but other people who get their monthly currency payments such as ‘ monthly income’, gets their rendered investments quite worthless (Boivin & Giannoni, 2010).

The effectiveness of the monetary policy has visualized a considerable force in global financial crisis. Upon confrontation of global financial crisis, the inflation rates and interest rates affected the nation’s economy due to hyperinflation and hyperinterest but the stable monetary regime was, somehow, able to maintain the levels of inflation and interest. During the high inflation in 1980, when the US Federal Reserve Chairman ‘ Paul Volcker applied the monetary brakes, a large drop in inflation and an economic downturn was resulted. In other country like Canada in 1990, the inflation up to 0 – 3% was targeted by the Bank of Canada (established in US and headed by John Crow) which curtailed economy activity so excessively that worse interest rates and negative inflation rates were practically experienced by Canada for the first time which continued for several months (“ Monetary Policy”).

In short, the eventual impacts and effectiveness of monetary policy over inflation rates and interest rates are not obvious. Every effort is made by the US Central Bank in influencing the economy through existing monetary policy. The monetary policy’s insights are quite essential factors for investors because the financial credits and availability of money are key accountabilities in investment with respect to pricing, interest rates and inflation rates (Boivin & Giannoni, 2010).

References

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