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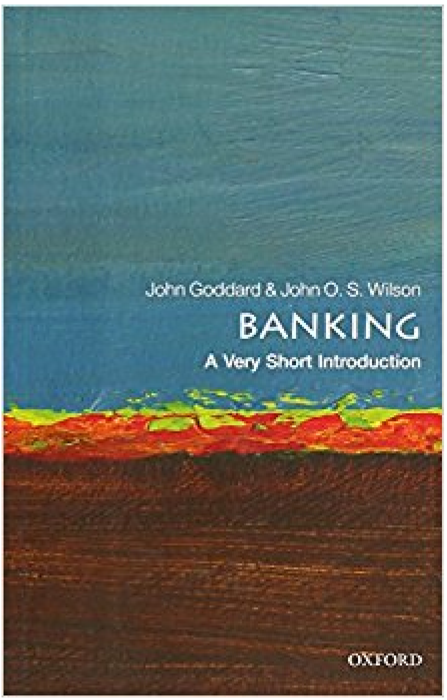
Banking: A Very Short Introduction (Very Short Introductions)



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Synopsis

Banks are of central importance for economic growth, the allocation of capital, competitiveness, and financial stability. Propelled by technological advances in financial analysis and financial deregulation, the banking industry’s investment played a key role in enhancing national economic growth in the early 21st century. The global financial crisis in 2007 revealed the banking world’s feet of clay.Since 2007, the turmoil in the global financial system has prompted a fundamental reappraisal of the scale, scope, governance, performance, safety and soundness of banks and other financial institutions. In this Very Short Introduction John Goddard and John Wilson explore the world of banking, describing the role of central banks in national and global economies, and analyzing the increasing supervision and regulation imposed on the banking industry. Looking to the future, the authors consider proposals for reform of the banking industry, and the prospects of a resolution of the closely-related banking and sovereign debt crises.ABOUT THE SERIES:The Very Short Introductions series from Oxford University Press contains hundreds of titles in almost every subject area. These pocket-sized books are the perfect way to get ahead in a new subject quickly. Our expert authors combine facts, analysis, perspective, new ideas, and enthusiasm to make interesting and challenging topics highly readable.

Book Information

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Customer Reviews

John Wilson is Professor of Banking and Finance and Director of Research in the Management School at the University of St Andrews. He is also Director of The Centre for Responsible Banking and Finance. His books include European Banking: Efficiency, Technology and Growth (Wiley, 2001) and The Economics of Business Strategy (Prentice Hall, 2003) He co-edited the Oxford Handbook of Banking (with Allen Berger and Phil Molyneux) (OUP, 2009).John Goddard is Professor of Financial Economics and Deputy Head of Bangor Business School at Bangor University. He has published articles in Journal of Money Credit and Banking, Journal of Banking and Finance, Journal of Forecasting, European Journal of Operational Research and International Journal of Industrial Organization. His books include Industrial Organization: Competition Strategy and Policy (with John Wilson and Dr John Lipczynski) (Pearson, 2013).

I read this book to consider using it in a college survey course on international business. Unfortunately, it isnÃƒÂ¢Ã â ¬Ã â„¢t really suitable for readers who are truly beginners in finance or economics.A strength is that the book covers a wide range of material. But it does so in a very bankerly, top-down, facts-from-the-experts exposition, making no effort to charm the reader or engage his or her imagination with controversies, a mix of points of view, or open questions for the future. For example, when the book discusses pools of borrowers or loans that have very precise risks of default (2%, 10%, etc.), it never explains how these assessments are arrived at, much less consider whether there may have been some flaws in the ways in which these risks have customarily been assessed. And from the authorsÃƒÂ¢Ã â ¬Ã â„¢ presentation of the ÃƒÂ¢Ã â ¬Ã Å“deposit expansion multiplierÃƒÂ¢Ã â ¬Ã Â• (@64-66) you would never guess that even one of the US Federal ReserveÃƒÂ¢Ã â ¬Ã â„¢s own economists has suggested that the multiplier is a myth (see ÃƒÂ¢Ã â ¬Ã Å“Money, Reserves, and the Transmission of Monetary Policy: Does the Money Multiplier Exist?ÃƒÂ¢Ã â ¬Ã Â• (2010) by Seth Carpenter & Selva Demiralp).About 40% of the contents of the book is devoted to the 2007 financial crisis (Chaps. 6-8). Matters more familiar to the general reader from daily experience, on the other hand, donÃƒÂ¢Ã â ¬Ã â„¢t get as much attention. Payment systems affect everyone daily, and so might interest the reader curious enough to pick up a skinny book about banking. Yet they get less than a page and a half, a good chunk of which is taken up with descriptions of ATMs and various types of cards at this level of detail: ÃƒÂ¢Ã â ¬Ã Å“Credit cards allow customers to pay for goods and services with funds that are effectively loaned by the credit card company. The customer receives a monthly statement, and may choose to pay off the full balance, or pay a portion and incur interest on the balance.ÃƒÂ¢Ã â ¬Ã Â• Period. (@24.) Sort of the financial equivalent of my 7th-grade biology textbookÃƒÂ¢Ã â ¬Ã â„¢s observation, ÃƒÂ¢Ã â ¬Ã Å“Birds are beautifully adapted to flight.ÃƒÂ¢Ã â ¬Ã Â•Aside from offering a dry presentation, the authors assume some familiarity with the subject matter. There is a glossary, but it is far from complete: e.g., you should understand on your own what a ÃƒÂ¢Ã â ¬Ã Å“securityÃƒÂ¢Ã â ¬Ã Â• is and what the ÃƒÂ¢Ã â ¬Ã Å“notional amountÃƒÂ¢Ã â ¬Ã Â• of outstanding derivatives means (@46). You should also be familiar enough with reading supply/demand curves that you can easily construe the one the text provides for interbank lending rates, which isnÃƒÂ¢Ã â ¬Ã â„¢t the familiar curved X-shape (@66-70). (To be fair, itÃƒÂ¢Ã â ¬Ã â„¢s a conventional textbook presentation of the topic, but thatÃƒÂ¢Ã â ¬Ã â„¢s no guarantor of clarity, especially for beginners.) And even I had difficulty in staying focused on flood of verbal descriptions of investment vehicles and derivatives contracts (@21-22, 45), although IÃƒÂ¢Ã â ¬Ã â„¢ve encountered most of them in the past. Pictures would have been a great help.There are also some incorrect or misleading statements. One is that capital is a liability (@57); another, that derivatives, including swaps, are securities (@45). There is also an ambiguous use of the word ÃƒÂ¢Ã â ¬Ã Å“includesÃƒÂ¢Ã â ¬Ã Â• that is most naturally construed as implying that hedge and private equity funds are part of the ÃƒÂ¢Ã â ¬Ã Å“shadow bankingÃƒÂ¢Ã â ¬Ã Â• system (@21-22). Each of the latter two statements is true only exceptionally, not as a rule. At least in the US, *some* swaps (security-backed swaps) are regulated as securities, but many of the most common types (interest-rate swaps, forex swaps, etc.) are not. *Some* hedge funds and private equity funds (the ones involved in providing credit) might aptly be included in the shadow banking system, but most others would not. A reader hitting this material without knowing much about the financial services industry could get easily misled.The way to improve this book for a second edition seems pretty clear. First, if length is an issue, spin most of the financial crisis discussion into a second book, perhaps on financial crises generally. (The VSI series already pulls that kind of trick in other cases: e.g., in addition to a 4th edition VSI on the European Union, there is now a separate volume on EU law.) Then, include many more diagrams to explain off-balance sheet vehicles, derivatives, and maybe payment systems, too. The copy-editing could also be tightened: currently a figure explaining balance sheets at the beginning and end of a financial period uses the same graphic and numbers for before and after, even though income was earned (Fig. 2, @ 35); and there is the occasional ambiguous phrase, e.g. when adverse selection is described as a problem arising ÃƒÂ¢Ã â ¬Ã Å“because the borrowers have better information about themselves than the lenderÃƒÂ¢Ã â ¬Ã Â• (@28). Finally, some reflections on the role of banks in society -- especially during an era of rising inequality -- would be helpful. The authors are plainly experts in their field. If they were to aim less at subscribers to the Financial Times and more toward engaging readers who are new to the subject, this book could become very useful indeed.

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