

LECTURE NOTES

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Rutgers University, New Brunswick, N.J.
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Pleasure and honor of being here. Hope I don't duplicate!
Shall put things in way to provoke thought and questions. Slightly
extreme form.

I. Investment Management

A. Objectives

1. Safety
2. Increase in capital value
3. Income

B. Full investment

1. Minimum of cash

Exceptions: 1932-1933 and some smaller banks
Only source of new funds is savings and
for single bank as part of system expansion

2. Equities
3. Debts

- (a) Long-term bonds
- (b) Mortgages
- (c) Short-term

C. You appropriately follow what other
investment managers are doing

II. There is one enormous institution that does
not follow a full investment policy

A. The F.R.S.

Gold = \$23 billion
@ 25% = 69 billion earning assets
Now holds 17 billion
\$52 billion additional authority to purchase

Power is enormous.

Whether you agree with what it does or not, you
cannot afford not to understand its policy.

III. Instruments of policy

A. General

1. Rate
2. Open Market
3. Reserve requirements

B. Selective

IV. Limits to F. R. power

Control volume of credit
or cost of credit, not both

Compare with speed of car on hilly highway
with accelerator and brake

V. Interpreting F. R. policy

War to June 28, 1949

Statement of June 28, 1949

Douglas questions

Following portfolio and rates to determine
strengths and weaknesses in market

Really net effect of market as a whole may want
parts too, but don't get bogged down

Social responsibility of yourselves over
and beyond earning a living.

VI. Why not junk the whole thing and return to a natural market?

A. Has meaning only with respect to objective -
which is a matter of choice!

No inherent nature with man

Use of powers of nature to our ends
(what is "natural" speed of a car?)

e.g. 6/24/50 holdings

Bills	\$4 billion
C/I	5 "
Notes	2.4 billion in 4 months
	.7 " in 4-5 years
Bonds	5.6 "

VII. We have tried no central bank

Didn't work

VIII. We now have central banking

We must make it work

IX. Commercial banking elsewhere

X. The basic issue

Fiscal policy

The rate of interest - not high or low
but flexible vs. fixed low

Not panacea especially if Government supports
and props up every weak spot

Barrier to use of general instruments
danger of unemployment

XI. Organization of System and its improvement