

## LECTURE NOTES

of KARL R. BOPP

Graduate School of Banking  
Rutgers University, New Brunswick, N.J.  
June 27, 1950 - 10:30 am to 12:20 pm

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

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Social responsibility of yourselves over  
and beyond earning a living.

VI. Why not junk the whole thing and return to a national 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