wouldn't exist if disease were eliminated. Do you think the people who would have been doctors are now going to be street sweepers? . . . They are not. They are going to take their skills and discipline to learn about something other than medicine. There is no limit to the human imagination. America's greatest resources are knowledge, know-how, and creativity. Such markets can never be cornered" (p. 40).

The Choice should be read far beyond the classroom, because it is the type of book that can be passed on to parents, grandparents, siblings, or friends to explain how the world works and what economics is all about.

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Monetary Policy and Investment Opportunities, by Laura S. Nowak, Westport, CT and London: Quorum Books, 1993.

After being relegated to the credit columns for much of the past decade and a half, news about Fed policy has made it back onto the front page. This renewed focus on what the Fed does and how its actions affect the economy has made Professor Laura Nowak's *Monetary Policy and Investment Opportunities* all the more timely.

Professor Nowak's goal in this short book, to use her own words, is "to make [this] sometimes mysterious and sometimes esoteric subject understandable." For the most part she does so quite well. Whether or not that will actually open up investment opportunities for people can of course be debated. But for students of economics—particularly MBA students of the sort that I teach, many of whom are involved in the financial services industry or soon will be—the book will prove a valuable adjunct to the standard fare of macroeconomics texts. It makes the connection between Fed policy as actually implemented, via the Fed's manipulation of the Federal funds rate, and monetary policy in the theoretical sense of money supply behavior, more transparent. It also provides a simple, and in the main, rather complete discussion, including the needed institutional details, of the links between monetary policy, financial markets and the rest of the economy. There are, however, several lacunae in Professor Nowak's coverage of which the reader should be aware.

The book is divided into two parts. Part I of *Monetary Policy and Investment Opportunities*, which is subtitled "The Central Bank's Effect on the Financial System and the Economy," consists of four chapters dealing with the Fed itself and the basic relationships between its policy actions, the economy and credit markets. Part II, "Monetary Policy and Fixed Income, Equity and Other Investments," provides a more in-depth discussion of various markets, including the markets for real assets, and the impact of monetary policy changes.

The first chapter of the book is an historical overview of central banking in the United States, beginning with the First Bank of the United States in 1791 and ending with the DIDMCA in 1980. This is useful background material, particularly for students who have not taken a course in money and banking. For my own taste, however, it occasionally becomes a bit too reportorial, in particular neglecting some of the substantial criticism that has surrounded central-bank policy actions at various points in U.S. history.

Chapter two is devoted to open market operations—both from the side of the Fed and from the side of the recognized dealers in government securities, the firms on the other side of the trades and hence the initial conduits of policy to the rest of the economy. In chapter three, Professor Nowak extends her analysis of policy impacts to short-term, "money-market," interest rates and long-term bond yields. In chapter four, she discusses the relationships among various interest rates, both yield-curve relationships and risk and liquidity relationships. All of this is clearly written and replete with enough institutional detail that it avoids the sometimes overly simplistic treatment associated with many economics texts on the subject. The one topic to which more attention might have been given here is the nuances of funds-rate targeting.

The second part of the book amplifies and otherwise extends the analysis of policy impacts and of financial-market institutions begun in the first part. Chapters 5 and 8 deal with the effects of monetary policy on bonds and equities, and on various industries. Chapters 6, 7 and 9 discuss the institutional details of the money markets, the intermediate and long-term bond markets, and the derivative markets, respectively. Chapter 10, "Hedges Against Monetary Policy," in essence is a summary chapter in which Professor Nowak provides a list of conclusions.

The first of my two criticisms of the book has to do with the somewhat cursory treatment accorded to what arguably are the two most fascinating episodes in U.S. monetary history—the Great Depression of the 1930s and the Great Inflation of the post-WWII era. Monetary historians have directed substantial attention to the Fed's policies in both episodes. Much of this attention, moreover, has been rather critical. This is briefly acknowledged by Professor Nowak but not developed. Aside from being interesting history, additional discussion of these episodes would have provided a useful illustration of the complex forces that affect the conduct of monetary policy by the Fed and other central banks—political pressures, intellectual influences, and uncongenial as the concept may be to economists, the role played by individual human actors in the drama. For folks who will be trying to divine the future course of Fed policy, as many of my students will be, appreciation of such forces is particularly important.

My other criticism has to do with treatment of the theoretical links between funds-rate targeting and money supply. To my mind, the book is somewhat oblique here. In what has to be one of the most ignored parts of an often-cited article, Milton Friedman in his Presidential Address to the American Economic Association drew the parallel between interest-rate targeting by the central bank and unemployment-rate targeting. The concept of the "natural rate"—in the interest-rate case, the Wicksellian natural rate of interest—and its relation to the actual rate was of fundamental importance. Professor Nowak might have developed this distinction explicitly rather than leaving it lurking in the background.

In neither instance, however, should these criticisms be viewed as ultimately damning. In both instances, the treatment in the book can be augmented with additional written and lecture material. There is nothing with regard to either topic that the student will take away from a reading of the book that will have to be "unlearned."

Overall, I think *Monetary Policy and Investment Opportunities* does a nice job of integrating basic finance and monetary economics. I therefore intend to add it to the reading list for my MBA course in macroeconomics.

References

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