M

M1, M2 and M3: *(see Money Supply)*

Macroeconomics: is the study of the economy as a whole at the aggregate level involving analysis of macroeconomic variables such as gross domestic product (GDP), gross national product (GNP), net national product or income (NNP); population, employment and labor force; consumption, savings and investment; money supply and credit; government's fiscal operations, taxes and expenditures; exports, imports, capital flows, and the balance of payments; prices, wage rates, interest rates, and exchange rates. The analysis of the trends in these aggregates and variables is central to macroeconomics; it provides an assessment of the overall performance of an economy, and identifies the corrective measures to be taken which are main ingredients of macroeconomic policies.

Macroeconomic Imbalances: a state of disequilibrium in macroeconomic aggregates resulting in the loss of GDP growth, unemployment, fluctuation in general price level, wages, interest rates, and the exchange rate; major source of these imbalances is the excess of aggregate demand over aggregate supply embedded in their constituent elements such as excessive government deficits, excess of imports over exports and balance of payments deficits; or a reduction in the aggregate demand, leading to a recession or deflation of the economy; the study of macroeconomics concerns these imbalances.

Macroeconomic Instability: is reflected as fluctuations in macroeconomic variables from their long term and stable trends; for example, fluctuations in aggregate levels of investment, employment and production; major changes in price level, interest rates and exchange rate beyond the narrow band of fluctuations considered normal; adverse movements in exports, imports and capital flows; if such instability persists it may lead to recession, unemployment or inflation, or may cause reductions in investment and production levels in the economy.

Macroeconomic Policies: consist of a broad spectrum of government policies aimed at achieving a desirable set of objectives such as economic stability and growth through fiscal policies concerning taxation, government expenditures and borrowings; monetary policies concerning money supply, banking credit, interest rates and price level; investment policies affecting the size and direction of investment; employment and manpower policies; exports, imports and exchange rate policies concerning external balance.

Macrofinance: is the study of the financial system and its operations at the aggregate level within an analytical framework consisting of a set of tools and a system of analysis involving macrofinancial aggregates also called macrofinancial variable; their analysis is carried out in *nominal values* focusing on their behavioral interrelationship with reference to the structure of interest rates or rates of return and prices of financial assets, their market values and their trends over a given period of time; this analysis is conducted in the framework of macrofinancial issues and policies at the system level with reference to leading macroeconomic, fiscal and monetary trends; the system of intervention as operated by the monetary and regulatory authority, typically the central bank, occupies a prominent role given the overarching objective of maintaining soundness and solvency of banking and financial system; the technocracy involves instruments and levers of control, their interlinks and operational mechanisms, and their impact on stability and growth of financial system.

Macrofinancial Analysis: concerns with the study, analysis, evaluation and assessment of performance of the financial system and its major components at the system level, the aggregate level; for the ***system of indirect finance*** concerning financial intermediation, it involves macrofinancial aggregates, money supply, banking deposits, credit, reserves, liquidity; structure of interest rates and exchange rates; borrowings of public sector and private sectors; operations of the central bank, its system of control on banking operations, levers of control, and banking regulation and supervision as conducted by the central bank; structure of interest rates both on the deposit side and the lending side; operations and mechanisms of the banking system and other components of

financial system such as nonbank financial institutions; the system of foreign exchange, its market operations and control mechanisms of the central bank; institutional aspects such as the legal infrastructure, the system of entry and exit of financial institutions, operations of payment and settlement system for the banking system, operations and evaluation of regulatory mechanisms. For the ***system of direct finance***, macrofinancial analysis involves evaluations and assessments of the operations of financial markets, benchmarks and pricing, impact of changes in the interest rates and exchange rate on money and stock markets, interlinks with the system of indirect finance based on macrofinancial aggregates such as size and depth of money markets, specially market for treasury bills; analysis of the size, structure, depth and trends of capital markets and its major components like bond and stock markets; levels of market capitalization; size, structure and impact of foreign portfolio investments, or direct foreign investment and corresponding capital inflows; evaluation of stock exchanges, over-the-counter and futures markets if any; analysis of the activities of market participants, brokers, dealers, market makers, and major segments of investors, operations and evaluation of listing and trading mechanisms, rules and requirements; evaluations of the mechanisms of payment, settlement, transfer, recording and safekeeping by depositories of stocks and shares traded in the capital markets.

Mail Deposit: amount received by a bank through mail for crediting to its customer's account; tendering of deposit through mail rather than over the counter of a bank.

Maintenance of Minimum Balance: to keep the lowest specified balance in the account; if the balance falls below the minimum prescribed level, either the account is closed being rated as non-remunerative, or incidental charges are imposed on the account holder.

Managed Currency: a currency whose value is managed by the central bank or the monetary agency, particularly its exchange rate.

Management Fee: charges imposed for managing a portfolio, a fund, a business or company, in the form of a fixed percentage of average assets managed or a fixed amount negotiated for a given period, usually on yearly basis.

Management Information System (MIS): a system of managing information flow and uses within an organization, facilitated by a computerized network, and computer based programs which are designed to furnish required information on time to the management and those authorized; an information and data processing system developed to provide current information to those at decision-making level.

Mandate: a term used in banking and international finance to confer authority on a group or an institution to undertake a task or to make a transaction.

Mandatory Convertible Debt Securities: debt securities those are compulsorily exchangeable for another security, usually common stock at a pre-stated price.

Margin: in banking it is the difference between lending costs income; in business, it is the difference between costs and sales or turnover, expressed per unit sales or for the entire business transaction; in foreign exchange trading, it is the premium or discount deducted from or added to the spot rate; or money retained as security against an advance; or the difference between value of security and the amount advanced against the security as a collateral.

- ***Banking Margin:*** *(see Banking Margin)*
- ***Earning Margin:*** is the amount of net profit divided by the total earning assets.
- ***Gross Earning Margin:*** for banks, it equals gross interest income divided by total earning assets.
- ***Interest Margin***: *(see Net Interest Margin)*
- ***Intermediation Margin:*** *(see Intermediation Margin)*
- ***Profit Margin:*** (see Net Profit Margin)

Margin Call: in portfolio investment, margin call is made by the lender on an investor's account with a stockbroker or a dealer in securities if the investor has borrowed funds from them to buy securities by pledging the same securities as collateral, and the market value of the pledged securities has plunged down below a pre-agreed level thereby, impairing this collateral; in such a situation under the agreement of margin loan, the lending broker issues a recall of the margin loan in full or in some proportion of the amount outstanding which has to be repaid in cash by the borrower; failing that, the lender has the right to liquidate part of investor's portfolio to satisfy margin call requirements; this eventually arises mostly due to market volatility and adverse movement in the market value of securities thus acquired; or due to over-exposure of the investor to risky stocks compromising the soundness of investor's portfolio; or due to lack of liquidity depth in the investor's portfolio with the broker or the securities dealer.

Margin for Collateral: is the excess of the market value of collateral over the amount of loan; lenders typically prefer to provide loan amount less than the assessed value of collateral, because in the event of default, there are costs in loan recovery and these are substantial losses in distress forced sale, even with performing collateral; hence a margin for collateral is maintained.

Margin Loan: in portfolio investment, it is the loan secured on market rates of interest by an investor from the brokerage firm or the securities dealer with whom the investor is maintaining his portfolio account, to buy securities as an addition to his portfolio on the margin; the collateral for the margin loan are the new securities acquired, or a combination of new securities thus acquired as well as other securities held in the portfolio; the amount borrowed is based on some proportion of net worth of the portfolio held under terms and conditions called margin maintenance requirements; the most important one among these requirements concerns the value of the securities, the margin positions tendered as collateral, typically specifying that if the market value of margin securities were to decrease, say by one third, owing to adverse stock market movements, the margin loan will be recalled and is payable in cash or securities of equal value; the margin maintenance requirements are higher for volatile securities, otherwise typically it is one third of the purchase value; in times of booming securities markets, investors borrow margin loans in anticipation of quick capital gains well above the cost of margin loans; but if these anticipations turn sour owing to a market reversal, or a market decline, the investor faces huge losses plus the margin loan recalls; it is like borrowing costly funds to finance losses; hence in portfolio investment, margin loans may be seen an easy way to finance large capital gains at market costs, but they are also an easy way to incur losses on borrowed money; therefore prudent investing requires a tight discipline; part of it is built into the exposure limits on margin loans and its recall stipulations, but a more important part concerns investors own investment actions and policies.

Marginal Borrower: in contrast with a prime borrower, a marginal borrower is considered a greater credit risk by the lender, and may have to satisfy more stringent credit qualifications, may have to tender stronger collateral, security, or credit guarantee, and may have to pay higher interest rate, or incur extra loan costs as front end fee, loan points, or loan origination fee.

Marginal Cost: is the cost of the marginal unit of output and is generally lower than the average cost of production in the initial stages of production, or if excess installed capacity exists in the business or manufacturing unit. Once full capacity is reached, marginal cost begins to rise faster than the average cost because it may require expansion of production facility involving substantial fixed costs in lump sum rather than in discrete amounts.

Market-Based Ratios: are several profitability ratios computed by taking into account the market value of shares and company's earnings; for example, earnings or dividends per share, yield on common stock, dividends payout which are based on current value of shares.

Market Capitalization, Company: is the value of a company determined by the market price of its issued and outstanding common stock, and calculated as the number of outstanding shares multiplied by the current market price of the share.

Market Capitalization, Stock Exchange: is the aggregate market value of shares of all companies listed with a stock exchange; it is a stock market indicator obtained by multiplying the current market price of shares of companies listed on the stock exchange with the total number of shares outstanding of such companies.

Market Clearing Price: an economic term denoting price of an item where supply and demand of the item are in equilibrium; that is, a price where the market is cleared without an excess demand or an excess supply.

Market Interest Rates: Market-based interest rates as determined by market trends, reflecting cost of funds, cost of intermediation and overall financial and economic conditions prevailing at a given time.

Market Niche: a segment or section of a market for which a company or product is best suited; carving out of a section of a market by businesses, companies, and banks.

Market Price: the price prevailing in the market; price of an item determined by market forces of supply and demand, reflecting forces of supply and demand, reflecting the scarcity value of the item; as opposed to managed price.

Market Price per Share: the current or prevailing price of a share quoted on stock exchange which may be higher or lower than, or equal to the issue price of the share. The market value fluctuates in line with the share's demand and supply, market conditions, investor expectations, and recent performance of the company or the business concerned.

Market Rate: the prevailing market interest rate; the interest or discount rates at which commitments and transactions are made by market participants at a given time; the current or prevailing market quotation for securities, shares or commodities.

Market Ratios: also called valuation ratios; these ratios provide a measure of value of the stock of a company being traded in securities market; these ratios enable in investors to determine the value of a company in terms of the price multiples of earnings per share; these ratios also provide a measure of cost of issuing stock of a company.

These ratios are: *(see entries listed)*

- ***Price Earning Ratio (P/E)***
- ***Payout Ratio***
- ***Dividend Yield Ratio***
- ***Market Value To Book Value Ratio***

Market Segment: each of several parts into which a market can be classified based on product differentiation, targeted customers, or specialization in a line of business; this is a standard practice in establishing any business and a cardinal feature of marketing strategy adopted by them.

Market Segmentation: may occur by fiat or through market process and is based on price differentials, product differentials, or types of customers and income levels of customers; markets are thus divided into segments where market participants conduct transactions on terms and conditions applicable only to the specified segment of the market.

- ***in banking:*** segmentation of credit market is based on the type of borrowers, such as prime and nonprime borrowers; long term or short term borrowers; regular clients versus new clients; borrowers segmented according to the type of their business activity or location.
- ***in businesses:*** market segmentation based on product differentials involves targeting sales according to the customer needs and preferences with minor variations on a basic product; segmentation based on price differential involves pricing of the same basic product with variations suited to different income levels of customers.

Market Value: of an item is the price a purchaser is willing to pay; a market determined price of an item based on the supply and demand forces of the market, involving a number of buyers and sellers; prevailing or realized value of an item if sold. This is most important bench-mark in the system of valuation of market-based economics, determining the use and allocation of resource at every level of the economy, central to each and every business or financial transaction conducted; this is pivotal in determining the net worth of individuals, businesses and companies; survival of economic system depends on system of valuation rooted into market value of goods and services.

Market Value to Book Value Ratio: is the indicator of market valuation of a company since it is the ratio of market value per share to the book value per share; also represents networth creation if the ratio is more than one.
(see Ratios, Market Ratios)

Marketable Assets: assets that can be sold in the market to buyers seeking purchase or acquisition of the asset.

Marketable Collateral: a collateral that has adequate market demand; property or asset held as security which can be sold with ease and without loss; it is a fundamental requirement of lending.

Marketable Lot: in securities market operations, it is the prescribed numbers of shares and their multiples which are accepted for sale and purchase only on stock exchanges. If the marketable lot of any shares is say 100, then the holdings of these shares shall have to be consolidated into 100 shares or their multiples in order to make them marketable.

Marketable Securities: securities that can be sold quickly; usually listed securities or securities, which are traded in the secondary market.

Matching: in accounting it refers to the principle of reporting income or revenue with the expense incurred for the same item, or category of item; in banking it refers to matching maturities of assets and liabilities.

Matured Loan: a loan that has fallen due for payment at its maturity date.

Maturity: a designated period of time as the duration of a liability or an asset, specified at its origination.

- ***of a loan:*** is the specified period for which the loan is extended and is to be repaid on the maturity date.
- ***of a liability:*** is the specified period for which an obligation has been entered into and has to be settled on the maturity date.
- ***of an issuance bill of exchange:*** is the date on which the bill is due for payment according to its tenor.
- ***date of a bond:*** is the date on which the bond must be repaid.

Maturity Mismatch: for a financial institution a mismatch occurs when the maturity structure of liabilities and their underlying financial obligations no longer correspond with the maturity structure of assets and their underlying financial inflows and stream of income, causing illiquidity, eventually financial distress if the financial institution is unable to cope with the mismatch.

Maturity Mismatch, Bank: occurs when the funding of long term loans is done with deposits or borrowings of short term maturities, thus exposing the bank to liquidity risk. If new deposits are not raised in time to replace matured deposits, or if new borrowing is not available to bridge the financial gap between repayment inflows on the loan portfolio, and payment outflows on matured short term deposits and borrowings of the bank, the bank may find itself in a liquidity squeeze, and may have to seek emergency borrowings at well above market costs, specially in times of rising interest rates, thereby incurring substantial losses on its operations.

Maturity Structure: is the time period of assets and liabilities based on their classification according to their maturity period or the maturity dates; it reveals concentration of financing or funding requirements of liabilities falling due at carious intervals; it shows availability of financial resources for assets maturing at various intervals; he maturity structure and its analysis provides a vital dimension to funding or financing decisions and portfolio management; a mismatch in maturity structure may cause serious illiquidity and losses if not properly managed.

- ***of deposits:*** is the time profile of deposits held by a bank consisting of various types of deposits classified by their maturity period; it shows deposit funds available to the bank for specific period for its lending operations
- ***of liabilities:*** is the time profile of liabilities in order of their due dates; for a bank, it mainly consists of deposits, and borrowings.
- ***of loans:*** the time profile of loans outstanding; the loan portfolio of a bank classified according to the period of time for which loans are extended.
- ***of payments:*** the time profile of payments as per dates they are due.

Maximum Loan: to a single borrower is the credit limit of the borrower; maximum amount that can be lent to a customer; per borrower limit stipulated by the bank, or prescribed by the prudential regulations or any other similar regulation.

Medium and Long Term (M<): is interpreted as a period of one to three years for the medium term, and longer than three years as the long term; it is the time period stipulated according to the type of financial transaction or activity, or according to the time horizon of savers, depositors, lenders, borrowers and other financial market participants.

Medium and Long Term Credit: for a commercial bank, it depends on the type of lending business it is engaged in; however, commercial credits with repayment period ranging from one to three years are commonly called medium term credits; whereas, loans or credits for a term of more than 3 years are long term credits.

Member Bank: in US banking, a commercial bank which is a member of the Federal Reserve System; all national banks in the US are automatically members of the system, while the state-chartered banks and mutual savings banks have the option of becoming members of the system.

Merchant Bank: in British style banking, a financial institution that mostly does fee-based business concerning investment financing such as underwriting issue of new securities, debt financing arrangements or investment of funds in leveraged buyouts, acquisitions, mergers, assuming their market risks, but does not take long term credit risk.

Merger: is to combine two or more entities through direct acquisition by one entity of the net assets of another entity, and consolidation of the two into a single unit.

Method of Settlement: the common settlement methods are direct payment, settlement through a clearing house, assignment in favor of creditor, settlement through a common intermediary, and settlement of trade-related indebtedness through collections or documentary credits; where settlement is the payment by the debtor to the creditor through different methods by which a liability is settled.

Microeconomics: a major branch of economics concerned with the study of economic behavior or functions of individual units in the economy, such as a firm, a household, and investor, a buyer, or a seller. (see *Macroeconomics*)

Microfinance: as a subject or field of study it is the opposite end of macrofinance, dealing with the analysis and evaluation of financial behavior at the unit level, mostly low income or poor households and their cottage industry type mini-businesses; in lending business, it refers to fairly small amounts of money advanced as credit on near market terms to very small borrowers, usually belonging to the lowest income group who were typically regarded non-bankable; this type of micro-credit has begun to attract a great deal of attention by formal financial institutions; quite a few of them are being specifically established for this purpose, given the potential of microfinance for poverty alleviation through promotion of cottage industries or household mini-businesses both in rural and urban areas.

Middleman: is an intermediary between producer and consumer or between buyer and seller or between lender and borrower arranging transactions for a fee or commission from both parties to the deal.

Minimum Balance Requirement: lowest balance required by a bank that must be maintained in an account by the account holder to keep it current; if the balance falls below this level, the account is either closed or rated unremunerative on which extra service charges are levied by the banks; also, interest-free balance to be kept by banks with their clearing banks in order to meet clearing requirements.

Minimum Capital Requirement: for a business or a bank, it is the part of the issued capital which must be subscribed before the company or the bank comes into existence and starts its operations.

Minimum Capital Standards: an amount of capital regarded as the minimum standard in relation to outsiders' liabilities or total assets; under the Basel Accord guidelines adopted in Pakistan, the minimum capital standard is defined in terms of capital adequacy ratio of 8 per cent to be maintained by all chartered banks.

Minority Interest: is the non-controlling interest in a subsidiary company; the interest of other shareholders in a subsidiary when a parent company owns less than 100 per cent of that subsidiary.

Misclassified Loans: are nonperforming loans improperly or incorrectly classified in a higher or better category or as performing loans.

Modern Banking: banking practices employing latest techniques and procedures providing an extended range of services to the customers; banking operations keeping pace with the international standards.

Monetary Aggregates: are components of money supply such as currency and deposits; banking credit, loans and advances; borrowings of public and private sector; financial savings held by bank and nonbank financial institutions; reserves of the banking system; foreign currency balances and deposits.

Monetary Authority: a central bank or a designated monetary authority, responsible for formulating and implementing monetary policy; monitoring and controlling the operations of the financial system, in particular, operations of the banking system; controlling inflation and preserving value of currency both domestically and abroad; maintaining public's confidence in currency and in banking system; and in general, preserving monetary stability through a system of controls, rules and regulations that is vital for economic stability and growth.

Monetary Base: includes currency in circulation in the hands of nonbank public, plus currency held by banks in vaults, plus reserves of deposit money banks with the central bank; thus defined, monetary base is the source of money supply and very sensitive to monetary control through reserve requirements and controls over currency expansion.

Monetary Control: is exercised by the monetary authority, the central bank, and is a powerful mechanism underlying monetary policy to achieve economic and monetary stability, and to keep inflation in control, thus maintain price stability; interest rate, and exchange rate stability; monetary control primarily is the control of money supply and banking system credit to regulate the level of aggregate money demand of the economy; involves use of a range of monetary control instruments which affect the operations of the banking system and other financial institutions; monetary control mechanisms and their effectiveness determine the success or the failure of monetary policy of the central bank.

Monetary Control Instruments: include an array of powerful tools and mechanisms available to the central bank to regulate the cost and supply of money, liquidity, and banking credit, and their use and allocation to various segments of the economy, consisting of instruments affecting interest rate structure such as discount rate and direct or indirect controls on the level of specific rates of interests:

- instruments affecting banking liquidity such as liquidity requirements, or open market operations involving purchase or sale of government securities and treasury bills which affect liquidity.
- reserve requirements affecting the cost and supply of banking credit.
- discretionary control instruments affecting availability of banking credit or their cost to borrowers if market mechanism are weak or insufficient to achieve desired objectives.

Thus, monetary control instruments underlie the monetary policy and their effectiveness determines the success or failure of monetary policy.

Monetary Expansion: is expansion in the volume of money and credit; increase in money in circulation, banking deposits and other components of monetary aggregates, causing an increase in aggregate money demand, thereby generating pressures on the price level, interest rates and exchange rate.

Monetary Management: is primarily aimed at preserving monetary stability in the economy; thus price stability, interest rate and exchange rate stability; revolves around maintaining a desirable level of monetary aggregates such as money supply, banking credit and a suitable interest rate structure consistent with the overall objectives of economic program, undertaken to safeguard against inflationary or recessionary trends.

Monetary Policy: consists of actions taken by the central bank, the monetary authority, or the government to affect the cost and supply of money and banking credit through instruments of monetary control; is undertaken to influence or control the demand for money and banking credit, to achieve specific monetary policy objectives such as price stability, interest rate and exchange rate stability, or to achieve stabilization at the macro-economic level through control on aggregate money demand in the economy; or to achieve economic revival and growth.

Monetary Policy, Instruments: include the following;

- ***Currency*:** control of currency is solely at the discretion of central bank though based on economic and financial trends, and in part is affected by the availability of gold and foreign exchange to provide the backing for the issue of additional amounts of currency under a fractional reserve system; currency is the liability of the central bank and is a major balance sheet item.
- ***Open Market Operations:*** involves purchase or sale of government securities and treasury bills, thus affecting liquidity of the banking and financial system.
- ***Discount Rate:*** affects the structure of interest rates specially on banking system lending operations as well as deposits since it is the peg rate in the financial and banking system and affect the cost of borrowing by banks from the central bank, and is the cost of the liquidity of the banking system.
- ***Reserve and Liquidity Requirements:*** include mandatory reserves and specific liquidity levels to be maintained by the banking system, both specified as ratios of deposit base; the reserves are maintained with the central bank.
- ***Selective Credit Controls:*** are undertaken if market based arrangements are insufficient or ineffective involving direct or indirect controls on banking credit and its use in the economy.
- ***Discretionary Instruments:*** include directives of central bank controlling specific items of banking system operations such as margin requirements, deposit requirements for foreign exchange availability, credit extension requirements.

Monetary Unit: is a unit of the legal tender and serves as the unit of account; a unit of currency, a rupee, a dollar, or a pound sterling.

Money: in *classic sense* money is defined as a measure of value, a medium of exchange, and a store of value; while this definition holds true, it is insufficient for several reasons; for example, cash is not normally used now a days to store value beyond immediate transactional needs since it is a poor medium of storing value which erodes away over time with inflation; besides, keeping cash is hazardous and there are superior instruments of short term savings available than cash savings. In economic sense, cash or nominal money is a unit of account and it does not have any intrinsic value of its own being *fiat* money, except for its command over real goods and services represented by the *real* value of money, essentially its purchasing power, the real money balances held whether for consumption or savings by the cash holders depending on their intertemporal time preferences; since real value of money always keeps changing because of movements in prices, therefore in economic sense real money balances are all that matters arrived at by adjusting nominal money balances for changes in the price level; in so far as real money balances reflect command over resources like goods and services, there are costs and returns associated with these resources and these costs and returns are attributable in the transfer of real money balances, preceded by transfer of requisite amount of nominal money balances represented by interest rates through operations of financial system. Therefore the classic definition of money is insufficient characterization of money unless the real value of money is referenced with time line inclusive of changes in the price level. In finance, money or cash is a liquid asset; it commands a premium and provides a return, howsoever small or large to the cash holder like any other liquid asset; for those seeking cash for temporary liquidity, this liquid asset has a cost in the money market which often is higher than prime rate of interest in times of tight liquidity. At the macro financial level, for monetary management and control purposes, money aggregates are classified as below.

- ***Reserve Money:*** consists of cash reserves of deposit money banks held by the central bank, whether as statutory reserves or reserves in excess of the statutory requirements to maintain sufficient liquidity for clearing and settlement purposes on inter-bank transactions; in addition, reserve money consists of currency issued by the central bank and held by banks as vault cash, or held outside these banks by other financial institutions or by general public; reserve money also includes foreign currency deposits of residents with the central bank if any, but excludes deposits of government and non-residents; all these items are liabilities of central bank.
- ***High-Powered Money:*** consists of the reserve money as defined above plus currency issued by the Treasury, the legal tender in circulation whether held by public or held by banks or other financial institutions; thus high-powered money is essentially the same as reserve money except for the currency issued by the Treasury in circulation which is a very small proportion of the total stock of currency issued both by the central bank and Treasury.

- ***Monetary Base:*** is the same as high-powered money defined above.
- ***Narrow Money:*** is currency in circulation plus demand deposits which is the same as M_1 of money supply defined below. *(see Money Supply)*
- ***Broad Money:*** is narrow money plus time deposits; hence broad money is the same as M_2 of money supply; but if board money includes time deposits liabilities of non-bank institutions, then broad money is larger than M_2; how broad is broad money depends on the items covered which may be the liabilities of the central bank, the banking system and the non bank financial institutions.
- ***Real Money:*** at the macro-financial level, it is the stock of money adjusted by the price level; this aggregate represents real money balances reflecting the command over real goods and services in a given time period.
- ***Fiat Money:*** is the paper money and is called fiat money because value of paper used in printing and issuing the currency is negligible; fait money is issued as legal tender by the government or the Treasury and is generally accepted as medium of exchange for transactions but it is not convertible into gold or other precious metals; likewise coins are fiat money but value of their metal is small compared to their face value as legal tender.
- ***Paper Money:*** is the currency notes issued by the Treasury as the legal tender or by the central bank for payment of debts and obligations and a medium of exchange in the transactions for goods and services; paper money is also called fiat money if not backed by the government's or central banks' pledge to exchange it for an equivalent amount of gold or hard currency.

Money Center: a major financial center with a concentration of major banks and financial institutions, money markets, stock exchanges and capital markets, and foreign exchange markets.

Money Center Banks: large multinational banks based at major money centers like Chicago, New York, Paris, London, Frankfurt, Tokyo, and Zurich, with a world-wide network of branches, involved in major international financial transactions, and providing a range of banking services normally out of reach of a local bank.

Money Changers: dealers in foreign currencies; authorized foreign exchange dealers other than commercial banks; individuals or firms engaged in changing one currency against the other.

Money Creation: initially occurs with an increase in the supply of currency by the central bank and an increase in the supply of credit by the banking system thereby increasing the general purchasing power or aggregate (money) demand for goods and services. The process gathers momentum with the operation of the money multiplier on the expansion of the deposit base of the banking system, leading to multiple money creation.

Money Demand: demand for nominal money balances mainly for transactions and short term liquidity, based on the demand for real money balances at any given point in time. Since, real money balances are the nominal money balances deflated by the price level, if the price level doubles, the demand for nominal money balance would double but the demand for real money balances would remain unaltered; however, with an increase in output of goods and services in real terms, both the demand for real money balances and nominal money balances will increase proportionally.

Money Laundering: is to convert illegal money or black money into legal money; if funneled through banks, it involves a series of very sophisticated domestic or international transactions in such a way that the illegal origins of the funds and its criminality is not traceable. The size of money laundering operations is very large, estimated into billions of dollars per year, originating mainly form trafficking in drugs and other contrabands, illegal gambling, large pay-offs in bribes or extortions, or plainly stolen funds in large amounts, held in numbered accounts or third party accounts where regulatory controls do not require adequate disclosure, and usually denominated in major convertible currencies.

Money Market: a market for short term debt securities such as treasury bills or commercial papers; a market for borrowings or placing short term funds, interbank funds, and deposit instruments such as certificates of deposits of varying maturities; it consists of a network of dealers, money center banks, institutional investors, businesses, companies or individuals who are active in such transactions.

Money Market Deposit Account: is a high-yield savings account paying market rate of interest with no regulatory limit, usually requiring large minimum balances to be maintained by the depositors; considered as liquid asset with a rate of return based on market interest rates.

Money Market Fund: is a money-market mutual fund invested in short term debt securities such as treasury bills, negotiable commercial papers, negotiable certificates of deposits or other money market instruments.

Money Market Instruments: consist of debt securities of short term maturity, usually less than a year, issued by the government or government agencies and organizations such as treasury bills, carrying government guarantee of repayment and thus considered riskless by the investors; or issued by banks such as certificates of deposits, banker's acceptances, or bank notes; or issued by corporations and companies, with the backing of a financial institution, such as negotiable commercial papers; these are actively traded in money markets and are acceptable to investors as risk free or minimum risk investments of short term nature.

Money Market (Interest) Rates: are interest rates on money market instruments such as treasury bills, commercial papers, term deposits, certificates of deposits and short-term negotiable financial instruments typically of a maturity up to 90 days.

Money Order: is a safe and convenient means of remitting funds through post office or banks a form of transfer instrument issued by financial institutions.

Money Ratios: measure the relationship of:

- money supply to Gross National Product (GNP) as M/GNP, M1/GNP, M2/GNP.
- components of money supply to the aggregate stock of money.
- money supply or its components to other monetary aggregates.

Money Multiplier: shows the multiple increase in the supply of money based on the following formula;

$$m = (1 + c) / (c + r + rt + d),$$

where

m is the value of the money multiplier;
c is the ratio of currency to checking deposits;
r is the ratio of deposit reserves to checking deposits;
rt is the ratio of deposit reserves to time deposits;
d is the ratio of time deposits to checking deposits.

The deposit reserves ratios, r and rt are not the ratios required by the central bank rather these are actual ratios maintained by deposit money banks.

Money Supply: consists of coins and currency in circulation and demand deposits of the banking system; or the instruments used as means of payment as below.

- ***M1*:** is a narrowly-based monetary aggregate consisting of currency notes and coins in circulation plus demand deposits with the banking system; in Pakistan, M1 consists of currency in circulation, demand deposits of scheduled banks, and other deposits with the State Bank of Pakistan (SBP); this is popularly known as money supply.
- ***M2*:** consists of M1 plus savings deposits, and classified money market instruments. In Pakistan, M2 consists of M1 as defined above, together with time deposits of scheduled banks and resident foreign currency deposits; also called aggregate monetary assets.
- ***M3*:** equals M2 as defined above plus time deposits held by nonbank deposit institutions.

Moneylenders: individuals or firms who lend money with or without security usually at a rate of interest higher than the organized market rate, are not registered or licensed to carry on such business and do not have to comply with any regulatory controls or reporting requirements; a major source of informal credit. *(see Informal Finance, Credit)*

Monitor and Supervise Loans: to watch loans outstanding through procedures for supervision and monitoring loans which include ensuring proper end-use of loans, sending of reminders before due date of installments, if any; recovery of installments, maintenance of documentation, overseeing the condition and value of securities, and recovery of principal amount and accrued interest on over dues or default.

Moral Hazard: in banking refers to the risk of operational conduct contrary to the sound banking practices, prudential lending, or contrary to the intent underlying banking regulations or procedures while avoiding outright contravention of those rules and regulations; for example, a system of deposit insurance, may encourage banks to undertake excessive lending risks beyond the norms of prudent lending practices, since deposits are guaranteed by the deposit insurance institution, the major liability of the banks, though the purpose of deposit insurance to protect depositors, rather than encourage risky lending.

Moral Suasion: an informal central bank measure to influence financial operations of the banks; a persuasion, short of formal directive is used as a selective credit control by central banks from time to time to curb or to encourage certain types of lending activities or financial transactions.

Moratorium on Payments: an order or decree commonly issued by bankruptcy courts deferring payment of debt for a certain period, to prevent bankruptcy or collapse of credit by protecting debtors against their creditors. It also refers to a voluntary agreement between the borrower and the lender if the borrower is unable to pay debts and requests for their postponement through rescheduling.

Mortgage: is a loan, a debt instrument of long-term maturity of typically 15 to 30 years extended by a bank or a financial company, against a property tendered as collateral by the borrower with fixed or variable rate of interest for entire period of the loan, called fixed rate or variable rate mortgages; repayment of the loan is determined in monthly installments inclusive of interest charged and principal amount on declining balance of the principal as monthly repayment progresses; as per loan agreement the borrower is usually granted right to pay-off the loan any time after an initial period of 3 to 5 years without repayment penalty, or with such a penalty before this initial period expires; in tendering the property as a security for mortgage loan, borrower extends a right to the lender to seek

financial recourse including sale, liquidation or foreclosure of the property should a default occur as stipulated in terms and conditions of the loan, though right of ownership of the property remains with the borrower; possession and use of the property also remains with the borrower; hence mortgage charge is effectively a subvention of borrower's property rights, not a transfer of property rights, and becomes inoperative after full repayment of mortgage loan, which may occur before its maturity; monthly installment payment is assessed on the basis of monthly income of the borrower, around 40 to 50 percent which determines size of mortgage loan and loan servicing capacity of the borrower; amount of the loan itself ranges between 60 to 70 percent of assessed value of property, not necessarily market value of the property; thus, loan servicing capacity of the borrower and assessed property value determine the size of mortgage loan.

Mortgaged Assets: are the assets pledged as collateral for mortgage loans; the assets on which mortgage charge exists or the act of creating charge on assets through mortgage.

Mortgage or Asset Backed Securities: are securities based on a pool of mortgage or other debts where principal and interest payments on the underlying mortgages or on the debt instruments are passed through shareholders in the pool on a pro-rata basis, less servicing charges. These securities involve prepayment risk, specially if the underlying mortgages are issued without sufficient prepayment penalty clause, and are paid off or refinanced prior to their maturity dates during periods of declining interest rate. In such a situation, the portfolio manager of the pooled securities may have to reinvest the prepayment proceeds at interest rate lower than those on original mortgages. Potential gains of prepayments on these securities may be smaller or even negative on comparable securities not subject to prepayment risk.

Mortgage Banks, Companies: are banks or companies which specialize in mortgage financing, or originate mortgages mostly for resale to investors either directly or by issuing securities that are backed by mortgage loans.

Mortgage Bonds: also called mortgage-backed bonds; a bond collateralised by a mortgage charge on some or all of the assets of issuer and payable from the issuer's general funds.

Mortgage Bond Market: is a secondary market where packaged or single mortgage loans are sold to investors; such a secondary market has encouraged a recent innovation of packaging mortgage loans and has helped an upsurge in international markets for mortgage lending and collateralised mortgage obligations.

Mortgage Credit, Finance: is loan financing provided against a charge on assets through mortgage for a variable or adjustable rate of interest by commercial banks, mortgage banks, mortgage companies and building societies.

Mortgage Loan: is a loan backed or collateralised by mortgage; a loan extended for financing real estate, usually with a right of foreclosure in case of default.

Mortgage Note: is a legal document, a promissory note tendered by the borrower to repay a mortgage specifying mortgage loan amount and interest, terms of repayment, and recourse in the event of default.

Multilateral Loans: are foreign loans obtained from multilateral credit institutions by the government or by the designated public sector agencies with the guarantee of the government on softer than market terms containing some grant element; usually for long periods with maturities ranging from 8 years to 20 years for interest bearing obligations, and up to 30 years for interest free obligations; denominated in a basket of foreign currencies, or in a major international currency such as the US dollar, or Japanese yen or European currencies, with repayment obligations in the currency of disbursement or the SDRs of the IMF where the exchange rate risk is borne by the borrowers; the balances outstanding on these credits is the multilateral debt, a major portion of the total external debt of the developing countries. These multilateral credits are extended for development purposes to finance various types of development projects in the public sector; or banking system credit for investment purposes in the private sector; or to make available foreign currency resources to the central bank in support of balance of payments such as those granted by the IMF and the World Bank, usually with stiff conditionality of economic performance.

Multicurrency Loan, Bond: a loan involving several currencies; a medium term roll-over credit with the option of drawing different currencies in successive roll-overs; a bond denominated in several currencies whose parities are irrevocably fixed; a bond denominated in one currency and convertible into another; a bond payable in one or more currencies depending on the choice of the lender.

Multilateral Creditors or Institutions: international financial institutions that provide foreign currency loans to the member governments such as the International Monetary Fund (IMF), the World Bank Group (IBRD); the Asian Development (ABD); European Bank for Reconstruction and Development (EBRD); Inter-American Development Bank (IDB).

Multinational Corporation: is typically defined as a corporation or enterprise that derives at least 25 per cent of its sales revenue from facilities outside the country of its origin; a corporation whose activities extend to several countries either directly or through subsidiaries.

Mutual Fund: is an investment company pooling the funds of a large number of investors through sale of shares of the mutual fund, and investing funds thus raised in stocks, bonds or money market instruments. If the number of shares in a mutual fund is fixed, it is a closed-end fund, like a unit trust; if it is variable it is an open-end fund, similar to investment trust; mutual fund provides a mechanism to individual investors diversify risk of portfolio investments; specialized investment expertise, and portfolio management not usually available to single investors; lowers the cost of investment in securities market and managing portfolios; offers opportunities to easily move in or out of certain types of assets, or to sell and move into cash position by reducing shares at the net asset value per share of the fund determined daily at the close of business.
(see Closed-End Funds, Open-End Funds)

Mutual Savings Bank: is a banking organization operating for the mutual benefit of its depositors; provides banking and deposit services to a large number of usually small depositors who do not have access to money markets and can not otherwise invest their savings at higher returns.