FINANCIAL INNOVATION BIBLIOGRAPHY

compiled by

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INTRODUCTION

Innovation within the financial system such as the introduction of new technology and the development of new financial products may lead to important changes in the structure of the financial system and in the operation of financial institutions. Such changes may in turn influence both the implementation and effectiveness of monetary policy.

The interest generated by recent financial innovation is reflected in a large volume of literature addressing the topic. A sample of this literature is presented in the following bibliography, obtained from the catalogues of the Reserve Bank of Australia Research Library.

The bibliography contains the following subject headings:

MONETARY POLICY:
- Theory and Practice 331*
- Monetary Aggregates 332

MONETARY and BANKING THEORY 333
- Economies of Scale and Scope 334

FINANCIAL INTERMEDIATION:
- Regulation 335
- Competition 336

INNOVATION:
- Products and Processes 337
- Computers and Electronic Information 338

Clearly, the subject listings are not mutually exclusive; many articles are likely to be relevant to a number of the sub-sections. The classification, however, attempts to place articles in the section in which they are most relevant.

The section entitled Monetary Policy: Theory and Practice lists publications which examine the implications of innovation for monetary theory and policy. An important aspect of this discussion is changes in empirical relationships, such as changes in the demand for money, induced by innovation.

The definition and measurement of monetary aggregates may be affected by innovation as it alters the substitutability between assets included in the various definitions of money. The section entitled Monetary Aggregates contains references dealing with the effects of innovation on the definition of money and the aggregation process used to measure total liquidity.

* These reference numbers are consistent with those used by the Journal of Economic Literature to classify articles under the heading "Domestic Monetary and Fiscal Theory and Institutions".
Monetary and Banking Theory appears as a separate heading so as to draw together references concerned with matters relating to existing and potential institutional settings. Innovations such as Electronic Funds Transfer Systems (EFTS) may influence the role of money as a medium of exchange.

The introduction of innovations such as EFTS are induced by several factors. One factor prominent in recent discussions is the likely cost reductions associated with such technology. In particular, high installation costs coupled with low marginal costs indicate that EFTS are likely to provide economies of scale to intermediaries. The section entitled Economies of Scale and Scope provides references that explore these issues.

The topic of Financial Intermediation is divided into two sub-headings: Regulation and Competition.

There exists an extensive literature discussing the role of regulation and deregulation in the financial sector. References in this section on Regulation discuss such matters as the effect of regulation on the behaviour of intermediaries. In addition, many articles examine the role of regulation in the process of innovation and conversely the impact of innovation on the effectiveness of regulation.

Innovations are likely to change the nature of competition within the financial sector. To reflect this a section entitled Competition is included so as to provide references on the possible competitive impacts of innovation.

Finally, two general sections entitled Innovation: Products and Processes and Innovation: Computers and Electronic Information provide examples and discussion of recent forms of innovation.

It must be emphasised that this bibliography is not comprehensive. Omission of any relevant paper merely reflects the fact that it was unavailable at the time of compilation.
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