



THE IMPORTANCE OF THE MONEY CREDIT SYSTEM IN THE WORLD

Kuchkarov Gaybulla
Docent of KarSU

Lola Babayeva
Head teacher of KarSU

Abstract

In this article we try to develop a theory of money and credit as competing payment instruments, then put it to work in applications. Buyers can use cash or credit, with the former (latter) subject to the inflation tax (transaction costs). Frictions that make the choice of payment method interesting also imply equilibrium price dispersion.

Keywords: Money, Credit, Inflation, Price Dispersion, Bank.

Introduction

When consumers and businesses can borrow money, economic transactions can take place efficiently and the economy can grow. Credit allows companies access to tools they need to produce the items we buy. A business that couldn't borrow might be unable to buy the machines and raw goods or pay the employees it needs to make products and profit.

Credit also makes it possible for consumers to purchase things they need. Many items, from cars to houses, are too expensive for most people to pay for all at once. With credit, it's possible to pay over time while accessing essential products and services when you need them.

Although credit clearly has an important role to play in maintaining a functioning economy, you may still be wondering why you need credit as an individual.

"Loans are a necessary part of life for many," says Katie Ross, education and development manager for American Consumer Credit Counseling. Loans can enable wealth-building by allowing people to do things like pay for college, increase earning power, buy a home and benefit from rising property values, or start a business, Ross says.

"Having access to credit can also be helpful in an emergency," explains Benjamin Jacobs, a certified financial planner at Elwood & Goetz in Athens, Georgia.

If unforeseen expenses arise or you need something you can't afford, being able to borrow could be a lifesaver, he says. Accessing credit is important for another reason in today's society: consumer credit reporting. When you borrow money, creditors





often report your behavior to credit-reporting agencies, including Equifax, Experian and TransUnion. Data on your financial behavior — such as whether you make loan payments late or fail to pay — is aggregated to create credit reports and evaluated to generate credit scores. Those reports and scores are used by lenders when they assess how risky it may be to lend to you.

If you were wondering why is credit important, now you know. But just because credit helps you build wealth and participate in the economy, doesn't mean using it is always good. Credit is a tool, and like most tools, it can be misused.

Since your credit scores are used to measure your reliability, inconsistent borrowing behavior and low credit scores will likely make people and companies reluctant to do business with you. You may not be able to get a cellphone contract without a large deposit, or a landlord may not rent to you.

Another big risk: borrowing costs money — in fees and interest — and it's possible to borrow more than you can repay.

“If a consumer doesn't know how to handle the credit they have available to them, they could end up paying a lot in interest, as well as paying fines or penalties,” Jacobs says. “This could end up spiraling, and I've seen consumers who end up having to file bankruptcy because it spirals out of control so much.” To avoid problems, Ross says, you should limit borrowing and take out loans only if you can easily repay them. She says it's also important to distinguish between so-called “bad” debt — debt used to buy things just because you want them — and “good” debt, such as a mortgage or student loans that can help build wealth in the long term.

As you know, money markets around the world came under severe stress during the recent financial crisis and in the subsequent sovereign debt crisis, with interest rate spreads jumping to unprecedented levels and market activity declining significantly in many market segments. In my remarks today, I'll first consider the functioning of money markets before the crisis and their malfunctioning during the crisis, highlighting specifics of the euro area's situation compared with that of the US. Tensions in the money markets led banks to seek to replace money market funding with central bank funding. Central banks have, since the beginning of the financial crisis, increasingly become intermediaries for interbank transactions, as witnessed by the steep increase in the size of their balance sheets.

These developments give rise to the following questions. First, if central banks are providing funding to banks in crisis times, when money markets are malfunctioning, why don't they also do so in normal times? In other words, what useful functions do decentralised money markets perform? I will argue that these markets are essential to ensure price discovery, information aggregation and peer monitoring.





Given these important benefits, a second question that arises is, how can the proper functioning of money markets be restored? I'll discuss policies that can help to revitalise money markets in the euro area later on. Such policies must be directed towards reducing counterparty risk concerns. This can be achieved by restoring adequate capital ratios and reducing the heterogeneity in the capitalisation of banks, as well as taking decisive steps towards a banking union. In the end, lending is an act of trust and there is no alternative but to restore full confidence in the soundness of bank and government finance.

Contemporaneous banking theories appear to understand financial institutions as intermediaries, relegating bank money creation through money multiplication outside the core of banking activity. This article takes a different systemic perspective, pointing to the dynamic and collective features that generate a banking system within and across financial institutions. Classic features such as bank credit creation, as well as classic issues such as bank runs, are reconsidered under the notion of a 'banking system' requiring coordination over time and circumstances.

Our conceptual framework develops a heuristic model of the basic mechanisms on which bank money creation lays upon. This model disentangles the link between functional and institutional dimensions of the money system, aiming to include minimal institutions in economic theory and economic analysis of money. These basic mechanisms include: monetary financial institutions (bank entities) issue claims which function as money; they facilitate payments across agents in the economy over time and space; they increase the money base through credit creation; they hold fractional reserves and lend to each other. Ongoing bank activity involves cash and non-cash (accrual) processes occurring within each bank entity and across them. Each bank keeps currency money in bank deposits on behalf of other agents. But the bank activity is further characterised by the capacity or privilege to use these deposits, although the latter remain available for payment and redemption at will and at par. Moreover, the bank can create deposit by granting a loan to, or buy a security from a borrower. This bank capacity or privilege involves money generation that enables the bank credit manufacturing process. In this way, all the banks become interdependent on the flow of payments that are performed across them, generating the 'banking system'. Since each bank is structurally unbalanced due to money generation, inter-bank coordination is required to maintain the banking system in operation over time and circumstances. Both inter-bank clearing and credit arrangements provide this coordination at the inter-bank level, which is effectuated through central bank intervention, clearing houses and the money market.





From this systemic perspective, 'systemic risk' and 'macro-prudential' management and regulation are new labels for recurrent concerns of systemic coordination. A careful combination of design and policy is therefore required to reach coordination in view to prevent or respond to local and systemic crises. Drawing upon this conceptual framework, this article develops institutional economic analysis and implications for shadow banking; systemic risk, interdependency and interconnectedness; the relationship between money and credit and the real economy; and the systemic consistency between functions and institutions in monetary regimes.

To understand the role of banking in the economy, the following theoretical analysis layers up three featuring dimensions. They may be understood as successive approximations of the money dynamic system generated by the ongoing working of banking as a whole. The first layer sees banking as the ledger keeping of the economy. At this level, banks are custodians of currency money held on behalf of agents in the economy in view to protect holdings and facilitate payments across them over space. This corresponds to the institutional ruling that grants banking with the privilege of holding and aggregating deposits. The second layer builds upon this payments system to understand bank credit creation which leverages upon the currency money base through fractional reserve. This corresponds to the institutional ruling that enables banks to use the currency under custody, while the latter remains available to its holders, as well as to create deposits that are convertible in currency money. Governmental deposit insurance and reserve requirements point to this dimension of banking as treasury management of the economy. The third layer introduces the bank management intentional action which seeks for business opportunities in order to generate income to the bank entity under cost and risk controls. Equity capital requirements (including prudential reserves) and credit guidance point to this dimension of banking as manufacturing of money through bank credit creation.

References

1. Erkin, G., & Shakhrizoda, H. (2022). THE IMPORTANCE OF GEOGRAPHIC LOCATION IN TOURISM. *Uzbek Scholar Journal*, 5, 145-150.
2. G'Ulomxasanov, E. M. O. G., & Rahmatillaev, O. X. O. (2021). O'ZBEKISTONDA TURIZM SOHASINING DAVLAT RIVOJIGA QO'SHGAN HISSASI. *Central Asian Academic Journal of Scientific Research*, 1(1), 52-56.
3. G'ulomxasanov, E., Sardor, A., & Dilnoza, S. (2021). Onlayn Turizmning Jahonda Hamda O'zbekistonda Tutgan ORni Va Rivojlanishi. *BARQARORLIK VA YETAKCHI TADQIQOTLAR ONLAYN ILMYIY JURNALI*, 1(6), 367-374.





4. Саримсаков, М. И. (2022). Применение Лекарственных Препаратов Полученных На Основе Растений При Заболеваниях Опорно-Двигательных Органов. *CENTRAL ASIAN JOURNAL OF MEDICAL AND NATURAL SCIENCES*, 3(3), 91-95.
5. Саримсаков, М. И., Султанова, Р. Х., & Иброхимов, И. (2021). Фармакологические свойства масел, полученных на основе растений. *ББК 72я43 (4Белл+ 5Кит) Н76*, 97.
6. Саримсаков, М. И., & Султанова, Р. Х. (2021). Изучение фитомасел при воспалительных процессах.
7. Саримсаков, М. И. (2021). ОЦЕНКА ПОБОЧНЫХ ДЕЙСТВИЙ ЛЕКАРСТВЕННЫХ СРЕДСТВ. *Интернаука*, (3-1), 30-32.
8. Tohirovna, K. F. (2021, February). Bologna Treaty and ECTS (EUROPEAN CREDIT TRANSFER SYSTEM). In *Archive of Conferences* (Vol. 14, No. 1, pp. 25-31).
9. Хусаинова, Ф. Т. (2020). ТАШКЕНТ В ПРОШЛОМ–В ЦЕННОМ ПИСЬМЕННОМ НАСЛЕДИИ «ТАРИХИ ЖАДИДАЙИ ТОШКАНД». *Review of law sciences*, (1), 183-187.
10. Khusainova, F. (2020). Ancestral heritage is a priceless treasure. Human and its spiritual problems in Avesto. *Oriental Art and Culture*, (I (2)), 135-137.
11. Toxirovna, K. F. (2021, December). LIFELONG LEARNING AS A PART OF DEVELOPING THE SPECIALIST'S COMPETENCE. In *Archive of Conferences* (pp. 83-84).
12. Муродов, О. Д. (2021). Влияние формы сетки очистителя мелкого сора для хлопка-сырца на очистительный эффект. *Технологии и качество*, (2), 52-55.
13. Djurayevich, D. A., & Jumayevich, M. O. (2017). Groundation of the parameters of grate bar on elastic support with non-linear hardness. *European science review*, (7-8), 109-111.
14. ДЖУРАЕВ, А. Д., ЭЛМОНОВ, С. М., МУРОДОВ, О. Д., & ХУСАНОВ, Б. К. У. (2016). РЕСУРСОСБЕРЕГАЮЩИЙ БАРАБАН ДЛЯ СЪЕМА ХЛОПКА-СЫРЦА С ПИЛЬНЫХ ЦИЛИНДРОВ И ЕГО ТРАНСПОРТИРОВАНИЯ В ОЧИСТИТЕЛЯХ. In *Поколение будущего: взгляд молодых ученых* (pp. 314-316).
15. Джураев, А., Мирахмедов, Ж., Муродов, О., Мамадалиева, Ш., & Нуруллаева, Х. (2006). Колосниковая решетка очистителя хлопка с многогранными колосниками.
16. Jumayevich, M. O., & Shuhratovna, A. A. (2022, February). TOLALI CHI QINDILAR BOLGAN CHANGLI HAVO TARKIBINI ORGANISHDA OLIV



BORILGAN NAZARIY TADQIQOTLAR. In *INTERNATIONAL CONFERENCES ON LEARNING AND TEACHING* (Vol. 1, No. 2).

17. Ibragimkhodjayev, A. M., Rakhmonberdiyev, G. R., Murodov, M. M., & Kodirov, O. S. (2009). "Influence of ripening process of cellulose from topinambour on its fractional composition. Chemistry and chemical technology. *Tashkent*, (4), 57.
18. Турдибоева, Н. У., Муродов, М. М., & Урозов, К. М. (2018). РАЗРАБОТКА ТЕХНОЛОГИИ ПОЛУЧЕНИЯ ЦЕЛЛЮЛОЗЫ ИЗ РАСТЕНИЙ КЛЕЩЕВИНА И ПОЛУЧЕНИЯ Na-КАРБОКСИМЕТИЛЦЕЛЛЮЛОЗА НА ЕЁ ОСНОВЕ. *Учредители*, 36.
19. Муродов, М. М., Юсупова, Н. Ф., Сидиков, А. С., Турабджанова, С. И., Турдибаева, Н., & Сиддиков, М. А. OBTAINING A PAC FROM THE CELLULOSE OF PLANTS OF SUNFLOWER. *SAFFLOWER AND WASTE FROM THE TEXTILE INDUSTRY*.
20. Umirzoqov, A. (2020). The Tasks of Optimal Design and Research of Systems for Cleaning Gas Emissions of Industrial Enterprises. *International Journal of Engineering and Information Systems (IJEAIS) ISSN*.
21. Nasirov, U., Umirzoqov, A., & Fathiddinov, A. (2021). ANALYSIS OF THE MODERN DEVELOPMENT OF MINING AND PROCESSING COMPLEXES IN UZBEKISTAN. *Збірник наукових праць Л'ОГОС*.
22. Usmanovich, S. A., Ikhtiyorovich, N. N., & Abdurashidovich, U. A. (2022). Processing of Layout Tails of Gold-Extracting Plants. *CENTRAL ASIAN JOURNAL OF THEORETICAL & APPLIED SCIENCES*, 3(1), 7-13.
23. Бекпулатов, Ж. М., Махмарежабов, Д. Б., Умирзоқов, А. А., & Кушназоров, И. С. Ў. (2021). БОЙИТИЛИШИ ҚИЙИН БЎЛГАН ОЛТИН ТАРКИБЛИ РУДАЛАРНИ УЗЛУКСИЗ ЖАРАЁН ПРИНЦИПИ БЎЙИЧА ФЛОТАЦИЯЛАШНИНГ АМАЛИЙ АҲАМИЯТИ. *Scientific progress*, 2(1), 1266-1275.
24. Петросов, Ю., Хайитов, О., Умирзоқов, А., Исаманов, У., & Имамбердиев, Ў. (2021). ПРОБЛЕМЫ ДОБЫЧИ И ПЕРЕРАБОТКИ ПОЛЕЗНЫХ ИСКОПАЕМЫХ В УСЛОВИЯХ ГЛУБОКИХ КАРЬЕРОВ. *Збірник наукових праць SCIENTIA*.
25. Samadov, A. U., Nosirov, N. I., & Umirzoqov, A. A. (2022). OVERVIEW OF THE CONCEPTS OF GOLD RECOVERY FROM STALE TAILINGS OF A GOLD RECOVERY PLANT. *BARQARORLIK VA YETAKCHI TADQIQOTLAR ONLAYN ILMIIY JURNALI*, 2(1), 3-8.



26. Ixtiyorovich, N. N., & Abdurashidovich, U. A. (2022). Study the Location of the Useful Component from the Tailings of the Gold Recovery Plant. *International Journal of Innovative Analyses and Emerging Technology*, 2(1), 5-8.
27. Umirzoqov, A. (2022). АНАЛИЗ ВЫПОЛНЕННЫХ ИССЛЕДОВАНИЙ ПО ОПЕРАТИВНОМУ УПРАВЛЕНИЮ МИНЕРАЛЬНО-СЫРЬЕВОЙ БАЗОЙ. «*EDUCATION AND SCIENCE OF TODAY: INTERSECTORAL ISSUES AND DEVELOPMENT OF SCIENCES*».
28. Umirzoqov, A. (2022). АНАЛИЗ ВЫПОЛНЕННЫХ ИССЛЕДОВАНИЙ ПО ОПЕРАТИВНОМУ УПРАВЛЕНИЮ МИНЕРАЛЬНО-СЫРЬЕВОЙ БАЗОЙ. «*EDUCATION AND SCIENCE OF TODAY: INTERSECTORAL ISSUES AND DEVELOPMENT OF SCIENCES*».
29. Хайитов, О. Г., Умирзоков, А. А., Юсупходжаева, Э. Н., & Абдурахмонова, С. П. (2021). О РАНЖИРОВАНИЕ И КЛАССИФИКАЦИИ УГЛЕВОДОРОДНЫХ ОБЪЕКТОВ ЮГО-ВОСТОЧНОЙ ЧАСТИ БУХАРО-ХИВИНСКОГО РЕГИОНА. *Scientific progress*, 2(2), 447-453.

