

Economic Impact of Central Banking

Abstract

Aim of the following work is to analyse economic impact of central banking, and it is primarily reaction to loose monetary policies adopted after subprime crisis by most of world's central institutions. In first part, I am focusing on presentation of some historical facts related to formation of central banking and summarizing institutional development of banks in Czech Republic, United States and Japan.

Second part is focusing on explanation of theoretical basis on which following critic of central banking is built upon. It is mainly explanation of subjective value theory, time preferences and interest that is inevitable result of existence of production structure. Second part of this section is dedicated to central banking itself, mainly to monetary expansion that has destructive impact on market coordination, conceals market prices and leads to systematical entrepreneur mistakes, that stand on the beginning of every economic crisis.

Third part of this work is practical and is divided into three subsections. In first, I am focusing on phenomena of Japan's lost decades and I'm explaining that stagnation of the nineties is the result of manipulated interest rates and uncontrolled expansion of monetary base. Second part is dedicated to Czech Republic and Its fight against deflation, which was argument for foreign exchange interventions and was probably cause of today real-estate bubble. Last subsection is trying to put into context events of the end of the nineties and the collapse of technological stock exchange, which was caused by manipulations with world's currencies and Plaza accord only a decade before. Following era of low interest rates led to subprime crisis in the United States, debt crisis in the EU and ended by unprecedented increase in balance sheets of central banks and depleted monetary instruments before upcoming crisis.

Result of this work is prediction of upcoming crisis, that is to come along with ending of quantitative easing and rising of interest rates, and that will probably hit enormously indebted states budgets.

Keywords: state, bank, crisis