On Innovation of Financial Products and Its Influence on Monetary Policy

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Keywords: Financial products, Monetary innovation, Monetary policy

Abstract: With the advent of the era of big data, the domestic financial market is booming. In just a few years, a variety of innovative financial products flooded the Internet, causing earth-shaking changes to the entire financial market. Relying on big data and cloud technology, innovative financial products are developing rapidly, featuring high transparency, low cost, convenient transaction, high participation, fast speed and high efficiency. Therefore, the development of financial product innovation has its practical significance. However, while paying attention to its positive significance, it also brings some negative effects on monetary policy. The innovation of financial products affects the motive of money demand and the velocity of money circulation. Innovative financial products influence the transmission channels of monetary policy interest rate, bank loan and balance sheet. It can be seen that the innovative reform of mutual financial products relying on the Internet has a great impact on monetary policy. In this paper, new models of various financial products relying on Internet innovation are firstly sorted out in detail, and their development status and practical significance are analyzed. Then, under the background of current situation analysis, the impact of innovative financial products and monetary policy is systematically discussed.

1. Introduction

In recent years, the main innovations of the financial industry include the third-party payment platform, financing platform, financial management platform, virtual currency and so on. With the help of financial innovation of the Internet, the city policy and financial regulation has brought challenges, he thinks that both money supply and money demand aspects of the impact of the Internet financial are not allow to ignore, this kind of financial innovation accelerated the flow of funds, high liquidity has a positive effect on monetary multiplier, this change will promote the growth of the money supply endogenous. In addition, Internet finance is efficient and convenient, so people's demand for transactional goods market and preventive money will decrease.[1-2] In addition, because rapid liquidity will also affect speculative demand, the innovation and reform of financial products will affect monetary policy. In particular, the virtual money existing in the new generation of Internet finance will also endogenous promote the money growth, affecting the central bank's supply of base money. But this kind of financial innovation product brings the positive force to our financial market far outweighs its negative effect. Internet finance has promoted the improvement of financial transaction efficiency, promoted the diversification of China's financial system, and brought great convenience to people's life. For example: promoting inclusive finance; Conducive to the normative development of the financial industry; To meet the needs of e-commerce; It has promoted the reform and innovation of financial products. However, while paying attention to its positive significance, we cannot ignore its negative impact on monetary policy. I believe that the reform of financial products has indeed brought great impact on monetary policy. For example, it weakens the measurability and controllability of the money supply: it increases the money supply endogenesis; In the new era, innovative financial products form a credit creation mechanism, which blurs the division of money hierarchy and affects the money multiplier. It affects the money demand motive, the money circulation velocity and the balance sheet transmission channel. Although related, the transmission mechanism of monetary policy theory relatively system and relevant theory of more or less involved in financial innovation, especially monetary policy risk bearing channel logical root was the result of financial innovation risk problem

  DOI: 10.25236/edssr.2020.036

but the existing theory are did not formally described and demonstrated that financial innovation system in the influence and role of the monetary policy transmission mechanism, this article try to complement them.[3-5]

2. Analysis of Influencing Factors of Financial Product Innovation on Monetary Policy

2.1 New Normal of the Economy

Internet finance has enhanced the endogenous nature of money supply. The issue and use of virtual currency is not enough to affect the amount of money supply in China, the virtual currency issued in China is mainly a variety of Taiwan dollars and game markets, etc. However, in the context of the development of Internet finance, if the control is neglected, the irregular development of virtual currency is bound to enhance the money supply endogenesis, increase the money supply quantity, and disturb the order of the money market.[6-8] Of macro economic environment at present, the new normal in terms of speed, is rapid growth, from rapid growth to shift gear at the speed of the so-called growth, in terms of structure, the escalating economic structure optimization, is in the structural adjustment of the so-called throes, because Internet financial regulatory system is not perfect in our country, using the network the phenomenon of money laundering, one of which is use of virtual money laundering money, the United States last year has revealed a use of virtual money laundering money case, Black money itself has no purchasing power, but when it is whitewashed through the Internet, black money becomes legal and normal currency. Virtual money will affect the money supply, and the influence cannot be quantified due to the opacity of the operation, which weakens the measurability and controllability of the central bank to the money supply.

2.2 Influencing Factors of the New Credit Mechanism

Innovative financial products created credit mechanisms and challenged the authority of central Banks. The central bank is the monopolist of the base money supply, and the quantity of money supply is determined by the central bank together with commercial Banks and other non-bank financial institutions. The special function of credit creation forces the central bank to control the money supply by adjusting the reserve requirement ratio and other monetary policy tools. At present, many non-bank financial systems also show the ability of credit creation to challenge the monopoly of credit creation of commercial Banks.[9-11] The third-party payment platform and Internet finance are typical representatives. With the development of Internet finance, other innovative financial products supported by big data, such as online loan platform, are also expected to realize the securitization of credit assets. Asset securitization is the key point of Internet finance from deposit to loan, and it is also the credit creation process of Internet finance. Third-party platforms attract a lot of users' attention, so they turn to the third party for investment and user financing. Makes the bank demand deposit reduces, causes the large fluctuation, thus the influence monitor.

2.3 Influence of Innovative Finance on Money Multiplier

The money multiplier is a sound factor between the money supply and the base money. As shown below, according to the traditional commodity market supply theory, the money supply is a function of the legal reserve ratio, excess reserve ratio, cash deposit ratio and base money supply. All the influences on the above factors may affect the final money supply and the new generation of financial products may affect the cash deposit ratio.[11-13] The cash deposit rate is the withdrawal rate, otherwise known as cash leakage rate refers to the fact that the client takes part of the money from the bank and the money is no longer deposited in the bank account, leaving the credit creation system of commercial Banks and no longer having the ability to create credit, which is also the reason why it is called cash leakage rate. Its development will promote residents' investment desire and consumption desire, and residents will invest their cash in new financial fields. The cash held by residents will be converted into electronic money, and the increase of electronic money actually increases the deposit account funds of Banks and reduces the rate of cash leakage. That is to say,

electronic money has replaced cash in circulation, so Internet finance has increased the money multiplier and enhanced the ability of Banks to derive money. The declining trend of money indicates that the public is holding less cash and a growing proportion of financial assets other than cash. The amount of money supply is jointly determined by the amount of base money and the money multiplier. Internet finance, on the one hand, influences the central bank's control over base money by influencing the predictability and controllability of monetary policy, and on the other hand, influences the money multiplier. Its double impact on the base money and the money multiplier works together on the money supply and thus brings an impact on the monetary policy of the central bank. It has a negative effect on the velocity of money circulation, which increases the volatility of money demand and weakens the effect of monetary policy. On the contrary, when the central bank implements the expansionary monetary policy, it will further stimulate the fund flow in the Internet financial market, and the velocity of money circulation will rise rapidly. Under the influence of the new generation of financial products, tight monetary policy or expansionary monetary policy will bring about drastic fluctuations in the velocity of money circulation, affect the stability of money demand, and thus affect the implementation effect of monetary policy.

3. Conclusion

The innovative development of financial products has its practical significance, but it also has a negative impact on the financial market, which has a serious impact on the money supply, money demand and money transmission mechanism, and weakens the promoting effect of monetary policy on the real economy. It can be seen that its development has brought great challenges to the macro-control of the central bank. It is necessary to optimize the intermediate objectives of monetary policy, improve the transmission mechanism of monetary policy, strengthen the monitoring of Internet finance, and respect and encourage the innovation and reform of financial products while strengthening the supervision of Internet finance, so as to promote its healthy development.

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