

GLOSSARY

Arbitrages – small profits made dealing between markets. For example, someone might borrow sterling for three months; use the sterling to buy dollars; sell dollars for sterling in the three month forward market; and meanwhile lend them in the euro-dollar market for a profit.

Big Bang – prior to October 1986 The Stock Exchange was a cartel with minimum commissions. Members were either jobbers or brokers. The jobbers were the market-makers but were not allowed to deal direct with the public. They dealt with the brokers who acted as agents for the public (including financial institutions). After Big Bang minimum commissions were abolished and jobbers and brokers were allowed to merge. Many became part of large financial conglomerates.

Bond washing – tax-paying investors could avoid taking a dividend and paying tax on it by selling a stock cum-dividend and buying it back ex-dividend. Investors who did not have to pay tax, for example, a pension fund, would 'buy' the dividend and reclaim the tax.

Buying-in – as a gilt-edged stock approached redemption the Bank of England, through the Government Broker, often bought any stock offered to them by the jobbers. In effect redemption was a continuous process.

DCE (domestic credit expansion) – broad money, M3, excluding the public sector's and banks' net borrowing from abroad. The IMF often insisted on target for DCE as one of the conditions for lending money to a country.

Equity circular – a circular about an equity, that is, an ordinary share, sent by a broker to clients.

Jobber – see under Big Bang

M3 money target – M3 was a broad monetary aggregate that included notes and coin in circulation with the public, current accounts and deposit accounts with banks, and certificates of deposit (CDs). Deposits with building societies were excluded. Between 1976 and 1987 M3 (or sterling M3) was the aggregate targeted by the UK authorities. After building societies became similar to banks in the 1980s attention switched to M4 which included building society deposits.

Market-maker – a firm that makes a market in a bond or a stock, that is, who quotes a two-way price, the lower one for a seller and the higher one for a buyer.

Minimum price tenders – before the Battle of Watling Street gilt-edged stock were normally offered for sale at a fixed price. Afterwards the tender method was used under which people who wanted to purchase the stock decided on the price they were prepared to pay.

New Change – the building that housed the Bank of England's new issue counter.

OFT – the Office of Fair Trading

PSBR – public sector borrowing requirement

Tap stock – gilt-edged stock were issued by 'offers for sale' at a fixed price on a certain day. More precisely the Issue Department of the Bank of England issued the stock and the Banking Department of the Bank took up any stock for which there were no applications. The Banking Department then sold the stock when the jobbers bid the Government Broker for it. It was, in effect, on tap. Hence the description 'tap stock'.