International Journal of Economics and Financial Issues

ISSN: 2146-4138

available at http: www.econjournals.com

International Journal of Economics and Financial Issues, 2021, 11(1), 94-100.

How Does Internet Finance Influence the Monetary Policy? Evidence from China

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Received: 11 October 2020 **Accepted:** 28 December 2020 **DOI:** https://doi.org/10.32479/ijefi.11007

ABSTRACT

Chinese banks have gradually expanded their financial services into overseas financial services and financial trade transactions. The financial services system is becoming more and more humanized and intelligent with the global economy's rapid development and progress. It improves the quality of banks' financial services and plays a vital role in its financial system construction and financial product innovation. As an internal driving force for the development of the financial industry, financial innovation has a vast and extensive impact on the economy. Because of the importance of monetary policy on national macroeconomic regulation and control, it is of great practical significance to study the impact of financial innovation on monetary policy effectiveness. This paper has conducted an in-depth analysis of the core concepts of internet finance, and suggestions and policy implications are given to improve China's monetary policy's effectiveness.

Keywords: Financial Products, Service Innovation, Monetary Policy, Effectiveness Analysis
JEL Classifications: G29, G14

1. INTRODUCTION

Chinese scholars believe that the rapid entry of foreign commercial banks into the Chinese economy has put tremendous pressure on China's commercial banks and brought new challenges and innovation to the Chinese financial industry's development since China's accession to the World Trade Organization (WTO). Through the continuous development of the world economy, every financial innovation will substantially impact the monetary policy's effectiveness. The constant change of the economy is a double-edged sword, which has the driving force to promote economic development and has resistance to economic progress (Adrian and Ashcraft, 2012). Even with financial innovation stimulation for western developed countries, monetary policy's effectiveness has not been improved accordingly (Faerman et al., 2001).

The explosive diffusion of the internet and mobile internet has laid a sound foundation for rapidly expanding internet finance in China. Most of the Chinese people access the internet on their mobile phones. Additionally, China's e-commerce industry is not severely an urban phenomenon. It has taken off as a way for rural residents to access desired products in China's huge and underdeveloped interior (Swanson, 2014). Internet finance, which integrates Internet technologies and financial activities, plays an important role in four major areas: payment and settlement, resource allocation, risk management, and networking channels. It can effectively reduce the transaction costs and the degree of information asymmetry in financial activities. Internet finance has contributed to market-driven financial liberalization, while China's financial control and regulation have not kept up with Internet finance's rapid growth (Lei, 2014).

This article mainly analyzes the connection between internet finance and monetary policy and studies its effectiveness. It generally refers to the government that holds currency issuance rights. To effectively ensure the realization of economic development goals and tasks, adopt policy-making methods, actively guide social resources to achieve optimal allocation, and create a market-oriented development environment for the economy to achieve steady and rapid economic growth. The effectiveness of monetary policy mainly reflects four aspects: promoting innovation in bank finance, ensuring the stability of employment forms throughout the year, promoting sustainable economic growth, and realizing precise controllability of money market interest rates. The development and improvement of the banking system will have far-reaching significance for the monetary policy's effectiveness. Further, this article analyzes the meaning and necessity of internet finance, elaborates explicitly on the leading indicators of the monetary policy's effectiveness, and profoundly analyzes internet finance's impact on its effectiveness.

The remainder of the paper is organized as follows. Section 2 reviews the study's background, and Section 3 describes the effectiveness of the monetary policy. In section 4, we discuss the impact of internet finance on monetary policy. Last, section 5 gives conclusions of this study.

2. BACKGROUND OF THE STUDY

The Chinese economy has achieved remarkable developments over the last two decades. Nevertheless, reforms in the financial sector have lagged behind those in other economic sectors. Financial suppression remains one of the essential characteristics of China's financial system; the leap of interest rate liberalization is considerably slow (Allen et al., 2013). The innovation of the financial banking system is to insist on deepening the reform of the financial system. Continuously improve the existing financial system through a useful innovation model and gradually withdraw the system directly or indirectly restricts Chinese economic development (Wang, 2014; Wu 2014a, 2014b; Zhang and Zhu 2014). In 2015, China strengthened the innovative banking and financial system by implementing an institutional innovation-driven development strategy and several specific programs for banking system innovation and tasks (Guo et al., 2016). With the advent of economic globalization, the existing banking financial system has been unable to meet the requirements and demands of economic growth (Rousseau and Sylla, 2003). However, as the main institution of financial services, the core point of financial system innovation lies in the establishment of a healthy and perfect open platform for financial innovation for the Chinese economic development, active use of high-level talents' innovation awareness and innovation capabilities, and the establishment of financial system technology. The great Chinese nation's dream is to strengthen banking and financial system superiority through internet finance. Innovation and long-term mechanisms of banks' financial system innovation are closely related to the national system's reform. It is necessary to continuously improve our socialist system's superiority and innovation and create a suitable environment for banks to carry out financial system innovation.

Financial services innovation in banks can be divided into four categories based on economic development goals and tasks. According to innovation's main contents, financial service model innovation, financial service environment innovation, financial service method innovation, and financial service solution innovation. Banks adopt effective methods to achieve convenient, safe, efficient, and intelligent financial transactions. With the rapid development of internet technology, mobile financial services have a strong service demand in China. Every customer wants to conduct financial transactions or financial product management at any time, any place, and in any way. The bank's financial service model's innovation mainly requires mobile internet technology to realize the online service and management model of traditional financial services. The bank's financial service environment's innovation is mainly reflected in the complicated and cumbersome service charter, which continuously optimizes service procedures and processes and realizes the service environment's transparency and humanization. The bank's financial service method's innovation is mainly reflected in the change from passive service method to personalized, active service method to improve financial services and financial service awareness continuously. The bank's financial service solution's innovation is a complex service system solution that requires continuous improvement of the service provider's quality and ability (Xie et al., 2016).

The innovation of bank financial products refers to the existing financial resources, through significant financial transaction carriers, to achieve financial value growth, leading to financial transaction carriers' reform and innovation. The innovation of bank financial products is conducive to promoting the innovation and transformation of financial services. However, bank financial products' innovation is based on the differentiation of financial needs, personalization, and financial technology innovation to continuously provide rich financial services for bank customers and countries. The main reason why financial products are paid attention is maintaining the sustainable profitability of their wealth, the liquidity of surplus funds, and fund storage safety (Hou et al., 2016). Different financial products reflect their value and significance at different times. Furthermore, bank financial product innovation's essence is to reduce the investment cost and risk factor of financial products, improve financial products' liquidity and safety, and protect the Chinese economic development and individuals. The accumulation of wealth has made concerted progress.

The globalization of the economy has brought good opportunities to the Chinese banking and financial industry and caused market shocks to the banking and financial industry. Due to China's late economic development, the accumulation of wealth lags far behind Western developed countries. In this complex financial environment, strengthening Internet finance is conducive to continuously improving its international competitiveness and resisting foreign banks' entry. Adverse effects. Since the reform and opening-up, China's economy has developed rapidly, but the rapid economic growth is based on a high-pollution, high energy consumption, low-value financial development model. With the increasingly major environmental problems, the realization of the national economic transformation has raised higher expectations for bank finance requirements. It is necessary to continuously promote financial innovation to achieve optimal social resources and personal assets. Simultaneously, rapid economic development has made some people more prosperous. People's lives have generally been improved, and the public's awareness of investment and financial management has become more robust. Strengthening internet finance is conducive to actively responding to the demand differences in financial services and products and investment objectives. According to U.S. financial development data statistics, the U.S. has maintained its leading financial innovation level in the past decade[1]. Since 2011, the U.S. financial industry has carried-out modes such as handling and opening banking financial services successfully. Innovation and Internet access have increased the number of bank financial services handled by nearly 280% within a one- year period.

Chinese economy's marketization process has transformed a market with a single state-owned economy as the main body into a market with the state-owned economy as the main body and coexistence with various ownership economies. This market is characterized by the buyer's characteristics of financial supply and demand. In recent years, especially the private economy's rapid development is most apparent, which has forced commercial banks' products and services to adapt to this change. This situation has also accelerated the development of financial innovation. Simultaneously, with the gradual increase in openness and internationalization of Chinese financial markets, the capital market has recorded a rapid development of the financial market. The banking industry has brought challenges, and it has also provided banks with a large number of business opportunities and a broad space for development. Commercial banks face a very complex internal and external environment; therefore, the only way out is to accelerate future innovation.

Financial innovation enables the international financial market's prices to respond quickly to all available information by improving market organization and equipment modernization. It also improves the sensitivity of price changes in the financial market; therefore, the price can respond quickly and timely to the information obtained to improve the rationality of prices and the price mechanism's power. Financial innovation reflects the rapid development of the market economy, thereby accelerating market prices' sensitivity to information. From another perspective, as a new development product, financial innovation will inevitably increase the types of financial products available for selection. The increase in gold meltable products can provide investors with more choices. There are more types of portfolios in the portfolio, so the selectivity is improved, and find the combination that is satisfactory to clients.

3. EFFECTIVENESS OF MONETARY POLICY

The most important manifestation of the effectiveness of China's monetary policy is to promote Internet finance. Because the state formulates the monetary policy combined with the private credit market and economic development plan under certain loose conditions through the bank's basic financial management unit. The effectiveness of monetary policy can be measured and analyzed by the development of the financial industry. Generally, there will be a certain probation period for the formulation and implementation of monetary policy. If there is no adverse impact, it will be included in the banking financial system's guiding laws and regulations. Monetary policy can positively affect the banking financial industry's development by stabilizing prices and controlling the total amount of currency issuance. Banks must continue to promote financial innovation to play their optimal allocation of social funds and maximize economic operation efficiency under the existing monetary policy change. The effectiveness of monetary policy is closely related to the quality of Internet finance and innovation efficiency.

An important manifestation of the effectiveness of monetary policy is to help ensure the stability of social employment. The country must adjust its economic development strategy. Monetary policy can affect the savings and purchasing power of people. Interest rate adjustments will help to identify the impact of monetary policy on society. Whether a country can achieve sustainable and healthy development is inseparable from its domestic employment rate and unemployment rate. The effectiveness of monetary policy is concentrated in promoting the optimal allocation of social labour resources, achieving full employment, and effectively reducing the unemployment rate. Since many factors influence the unemployment rate, monetary policy alone is not enough to achieve absolute control of the unemployment rate. Therefore, it is necessary to strengthen the innovation of banking financial services, actively guide the public's financial consumption and investment, and ensure that people live and work as much as possible. Monetary policy formulation needs to combine with the status quo of employment, with social stability as the priority, and continuously promote monetary policy reform and innovation (Wang, 2006).

The direct manifestation of monetary policy's effectiveness is that the formulation and implementation of monetary policy can effectively promote the economy's steady growth. The main driving force of social development is the transformation of the accumulation and distribution of social wealth. Different countries combined with their development status, using the GNP or GDP development plan to predict the economic growth characteristics, mainly through monetary policy for reasonable regulation and guidance, and then realize the central bank's government function. The implementation of monetary policy requires planning and design from a macro perspective of the overall economic situation, combined with its investment policy, foreign trade policy, marketization policy, and taxation policy. In order to promote the stable growth of the economy, the monetary policy needs to establish and improve its monetary policy revision system. Moreover, promptly discover the problems and shortcomings in implementing the monetary policy, make prevention the main, combine prevention with the prevention, and continuously exert the advantages of the monetary policy's effectiveness.

As one of the main manifestations of monetary policy's effectiveness, precise and controllable interest rates generally have three basic characteristics. First, the public has a high enthusiasm for participation, which can fairly reflect the matching of the

1 The Global Innovation Index (GII) 2020: Who Will Finance Innovation? Online accessed at https://www.globalinnovationindex.org/Home

total market currency and real market demand relationship. The government-guided interest rate can stabilize the economic market, effectively regulate the currency trading market, and avoid inflation or deflation. Second, manoeuvrability is good. The state controls the interest rate through the central bank in combination with the current economic development status, which has a significant impact on economic marketization development. However, marketization development has a greater risk, and monetary policy is required to ensure the correlation between interest rates and other economic indicators for effective Embody the true intentions of monetary policy. Third, small market volatility helps reduce the difficulty and risk of economic management. The effectiveness of monetary policy for the precise controllability of interest rates is the socially precise means of release and absorption.

4. IMPACT OF INTERNET FINANCE ON MONETARY POLICY

4.1. The Impact of Financial Innovation in Finance Payment Methods

In 21st century since Internet technology and the rapid development of mobile communication technology and popularity have significantly improved people's production and lifestyle. Accompanied by the rise and development of Internet finance, electronic money, and credit transactions, as one of the payment methods for innovative economic transaction activities, have been much loved and used by people. The large-scale technological innovation enterprises represented by Alibaba, Apple, and WeChat have achieved continuous innovation and progress in payment methods. The innovation of financial payment methods has a profound impact on the effectiveness of the monetary policy. First, it has accelerated monetary policy implementation and virtually guaranteed the rapid implementation of monetary policy. The innovation of financial payment means solved the payment form and simplified the payment process and payment efficiency. Secondly, the innovation of financial payment methods helps improve monetary policy. As for payment methods such as electronic money and credit transactions, Chinese monetary policy has not clearly regulated and restricted it. Moreover, it is necessary to focus on strengthening safety management and supervision. Finally, we got rid of the unfavourable constraints of monetary policy. The innovation of payment methods greatly exerts the monetary policy service means oriented by market demand. According to China's state-owned commercial banks to investigate the internet payments show that as of the 2019 year, commercial banks online banking rose rapidly. It shows that more than half of modern bank customers use the internet for payments (Table 1).

Table 1: Statistics of Internet payment customers of state-owned commercial banks from 2014 to 2019

Payment method	2014	2015	2016	2017	2018	2019
Online banking	18.60%	22.90%	58.70%	61.8%	64.9%	68.7%
Alipay	22.40%	34.70%	66.90%	70.5%	73.2%	76.1%
Applepay	6.80%	14.20%	36.70%	41.8%	44.5%	48.9%

Source: www.iresearchchina.com

4.2. The Impact of Capital Financing and Financial Service on Product Innovation

Since the reform and opening up, the Chinese financial and economic market has gradually developed and expanded. With the relatively loose monetary policy, a large number of enterprises and institutions have appeared in China. As these enterprises and institutions grow and expand, they will put more social financing (Noyer, 2012). Therefore, stock exchanges represented by Hong Kong, Shanghai and Shenzhen have developed rapidly in just 20 years. Because different companies have different specific financing goals and methods, the innovation of financial financing methods can maximize the financing needs of different companies and realize the diversified and efficient development of financing. The innovation of financial financing methods will greatly weaken the effectiveness of the monetary policy. On the one hand, the innovation of financial financing methods has brought more financing channels and funds for enterprises. Taking monetary policy as a form of macro-control will gradually withdraw from financing history. On the other hand, the innovation of financial financing methods has effectively reduced corporate financing cost, greatly stimulated investors' enthusiasm for investment, and made it more difficult to control the economy. The traditional transmission mechanism for the effectiveness of monetary policy poses severe challenges and tests.

As an indispensable channel for monetary policy, credit still plays a significant role in the transmission process. Therefore, we must improve this transmission efficiency in different ways; the purpose is to improve the monetary policy's effectiveness. The first strategy adopted is to continue to deepen and perfect the management system of Chinese commercial banks. It enables the management to establish the bank's own supervisory mechanism and organization truly, and improve the internal mechanism to reduce internal transaction costs in the future. Simultaneously, the speed of completion of transactions and transactions can be improved through internal control systems and risk management. Since credit is an important transmission mechanism, it should be possible to develop as many small and medium-sized financial institutions as possible in the current economic development situation to continue to extend the credit transmission function. This best advantage is reflected in the establishment of multiple channels, expanded business, and increased economic development.

Traditional financial management and investment products have a strong dependence on monetary policy, and mainly develop financial products based on the direction of monetary policy. However, due to the globalization of finance, for financial wealth management and investment customers, there are more choices and comparisons of financial products. Therefore, strengthening the combination of financial products and improving the level of financial services has become the key to ensuring economic growth. Where. The innovation of financial service products can be divided into transfer innovation and creative innovation according to the service form and product development goals. Transfer innovation is to change the combination of different financial products in combination with the existing monetary policy and financial system, thereby continuously reducing the investment risk of financial products. Creative innovation is a new type of financial service and product investment that focuses on the application of new technologies. The innovation of financial service products will break the restrictions of traditional currency transactions to a certain extent, and then continue to promote the reform and innovation of monetary policy. Therefore, financial service product innovation will have a positive impact on the effectiveness of the monetary policy. However, the government and banks need to strengthen the supervision and control of financial products.

4.3. Financial System Innovation and Monetary Policy Analysis

With the rapid development of today's technology, the establishment of financial institutions and the development of financial innovation are becoming more and more complex, which makes the factors that affect currency demand and factors that affect prices become more complicated. Thus, no longer institutions cannot adapt to the current development of the banking industry. Therefore, in order to adapt to the new development, we must first achieve the following aspects: First, the current monetary policy must be formulated and implemented the existing economic environment and national policies. Secondly, banks should appropriately weaken the effectiveness of the reserve ratio of bank deposits, fully improve the operability and transparency of the open currency market, and pay more attention to the guiding role of monetary policy tools for society. Thirdly, the central bank needs to use monetary funds. The scope is further expanded, and some normative and reasonable operation methods are used flexibly, for example, credit control and face-to-face conversation can be controlled, and such a face-to-face conversation structure can be established in layers. The main condition for the excellent operation of the open market business is financial innovation. Under the premise of the smooth capital market and currency market, the real interest rate of the market can be adjusted to balance a certain proportion of direct financing and profile financing, making liquidity. The distribution is balanced to promote rapid and stable economic development. At present, Chinese macro control is more indirect, and the government budget is also shifting toward non-monetization, which will bring greater development potential to the development of the government's securities market and further expand the monetary policy market.

The analysis and research on the innovation of the financial system and Chinese monetary policy are mainly divided into two stages according to historical development and changes. One stage is from 1978 to 1997; one stage is from 1998 to the present. Before 1978, China's economic system was dominated by the government's macro-control, and a socialist public-owned economic system was established. The formulation of monetary policy is relatively traditional and has strong constraints on the financial system, making the Chinese economic development rate relatively slow. The innovation of the financial system requires an open system of monetary policy, which does not provide a good environment for innovation in its reform. Since entering the second stage, it has fully affirmed the positive role of the market economy that China has accelerated the pace of financial system innovation, and the mandatory policy for the currency has weakened significantly. Moreover, continuously improving the marketization and liberalization of financial system innovation. The innovation of the financial system has greatly promoted the basic service function level of the effectiveness of the monetary policy and improved the traditional monetary policy formulation system.

Directly improve the construction of the financial market system, and at the same time, improve the transmission channels for asset prices. What should be done is to speed up the construction of the money market by increasing the variety and number of financial products. Another important point is the development of the capital market. If the development scale of the capital market is small, the capital flow cannot flow, which is not conducive to the further development of the capital market. Therefore, different measures must be taken to improve the capital structure of the capital market. Therefore, the financial innovation system can be used to complete the capital structure and solve the problem of low capital flow. To improve the transmission of currency channels, we must have a strategic vision that takes into account the overall situation. There are policy guidelines for making every kind of decision so that the currency flow in commercial banks can be appropriately diverted. Eventually, the capital will enter the capital market economy that needs to be continuously improved.

4.4. The Impact of Financial Innovation on Monetary Policy Intermediary Indicators

As the intermediary target of monetary policy operation target and observation object, it is the most important intermediate link target in the process of implementing monetary policy. Previous theories believe that the correct choice of intermediary indicators is the key to the smooth realization of monetary policy. Because the selection of different intermediary indicators will lead the monetary authorities to take different policy measures and policy actions, which is directly related to whether the ultimate goal can be achieved. Economists from various countries have heatedly debated the use of extravagant financial variables as intermediary indicators. However, this theory and many years of controversy are based on a coherent assumption that there are ideal intermediary indicators in the real economy, so what matters is the question of choice. However, contemporary financial innovation has destroyed this implicit assumption. In other words, idealized intermediary indicators hardly exist. Therefore, the problem that now puzzles people is not simply which financial variable to choose as the intermediary index, but also to consider the selected variable is close to the standard of the intermediary index or maintain its inherent quality, and less interfered by financial innovation.

First, the emergence of innovation will transform many things, so the existence of financial innovation has blurred the originally well-defined financial variables. The previous variables can be inspected, monitored, and analyzed. The most prominent situation is that it leads to a mixed discussion about the definition of the total content of money. Because the definition of the level of contemporary credit currency is mainly based on the strength of liquidity, and financial innovation has greatly changed the liquidity of various financial assets, which has disrupted the boundaries of the original currency definition. It has been challenging to define different levels of currencies such as M1, M2 and M3. In particular, the existence of innovation is a development process, so many conceptual contents are constantly changing and developing. Judging from the current economic situation of development, the definition of the concept of currency has been ambiguous. The original currency was cash, and now the currency is put in Alipay, the currency in the WeChat red envelope is also the currency, and the one in the bank card is also currency. The central bank also tried to sum up a new definition of currency, but the existence of financial innovation has broken this situation. Therefore, the existence of financial innovation has reduced the accuracy of many indicators.

Secondly, Financial innovation makes various financial variables that can serve as intermediary indicators more and more endogenous, while the links with monetary policy tools have become increasingly loose and unstable. As an innovation considering the most commonly used intermediary indicator as money supply, it has been enlarged, the money multiplier has been increased and complicated, and the endogenous nature of the money supply has been enhanced. The scope of the bank's statutory deposit reserve ratio has narrowed, and its role has been reduced. The passiveness of the rediscount rate has increased, and the scope of action has been reduced. This has greatly weakened the central bank's control of the money supply. Taking the commonly used intermediary index interest rate as an example, the market interest rate itself is an endogenous variable. After innovation, the transmission of market information is very sensitive and sufficient. The determination of interest rate is more complicated and changeable. The central bank handles the monetary policy tools such as short-term interest rates and nominal interest rates, to active market innovation, tool innovation, and transaction innovation make them less important. Moreover, other interest rates respond to changes in central bank interest rates more slowly than changes in internal market factors. Therefore, the central bank's controllability of interest rates has also declined due to financial innovation.

5. CONCLUSION

Internet finance is conducive to the revision and improvement of monetary policy, and the effectiveness of monetary policy can be verified according to the state of financial development of banks. Since the content of Internet finance involves three aspects, the impact on currency effectiveness is explained separately, hoping to deepen readers' understanding and understanding of the relationship and transmission mechanism between the two.

The key to comprehensively improving the level of business management and comprehensive competitiveness: First, to establish and improve the organizational structure of financial business innovation, and to establish a guaranteed business innovation system; Second, to clarify the responsibilities of the innovation department and the innovation goals of the business department, in order to help each The intelligence of each employee; The third is to establish a human resource development mechanism. People must carry out whether or business innovation system innovation. To this end, we must attach great importance to human resources development, strengthening financial staff new business, new knowledge, learning and training, to enhance further the sense of innovation and practical innovation capacity of staff. The effectiveness of China's current monetary policy is not high. Financial innovation has weakened the effectiveness of monetary policy to a certain extent. Therefore, it is necessary to implement effective policy measures on China's financial innovation to reduce its impact on monetary policy effectiveness.

In terms of policy system, given financial innovation's flexibility, the monetary policy system's innovation mechanism and dynamic self-adjustment mechanism were established, using different policy methods and using different policy tools for flexible regulation. In terms of policy subjects, aiming at the weakening of commercial banks in the transmission mechanism of monetary policy, the central bank's status will be further enhanced to ensure the independence of monetary policy. In terms of policy operations, because of the diversity of financial innovation tools, the choice of monetary policy tools is adjusted, and more attention is paid to the guiding impact of monetary policy operations on the public. By adjusting the expectations of the public, the operational objectives of monetary policy are achieved. About the reform of the policy environment, in view of the impact of financial innovation on the traditional currency transmission mechanism, we must adequately accelerate the reform of the entire economic system, strictly control the risks of reform transition, and proceed step by step, and focus on advancing.

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