

Money and Banking 2

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Commercial Banks

- Heads Up! Commercial banks and investment banks are different things. In this class we will not talk about investment banks, so when I say bank I mean commercial bank
- Banks have two major functions in the economy
 - They are the middlemen in the market for loans - they accept deposits and extend loans
 - This function reduces to transaction costs of matching the borrowers and lenders also reduce information asymmetry between the parties
 - Banks are a channel for monetary policy - the Fed uses banks to affect the money supply instead of dropping money from helicopters

Commercial Banks Cont.

- The following is a basic balance sheet for a bank

Table : Bank Balance Sheet

Assets	Liabilities
Reserves	Deposits
Vault Cash	Checkable
Deposits at Fed	Savings
Securities	Time
Treasury securities	Borrowing
Other securities	Private
Loans	Discount loans from Fed
	Owner's equity (Net worth)