Current Scholarship

Banks are not intermediaries of loanable funds – facts, theory and evidence

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In the loanable funds model, banks are modelled as resource-trading intermediaries that receive deposits of physical resources from savers before lending them to borrowers. In the financing model, banks are modelled as financial intermediaries whose loans are funded by ex-nihilo creation of ledger-entry deposits that facilitate payments among nonbanks. The financing model predicts larger and faster changes in bank lending and greater real effects of financial shocks. Aggregate bank balance sheets exhibit very high volatility, as predicted by financing models. Alternative explanations of volatility in physical savings, net securities purchases or asset valuations have almost no support in the data.

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