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Essays on Money and Banking

In my paper, I argue that to understand modern banking, one must acknowledge commercial banks not only as intermediaries of savings, but no less as the primary creators of money in our present-day society. On-demand bank deposits are widely used as media of exchange, transferred between agents by means of cheque, credit and debit cards. An asset to the deposit holder but a liability to the private bank, they constitute so-called inside money. I demonstrate how, and evaluate under which circumstances, commercial banks' money-issuance can affect real outcomes such as aggregate output and the distribution of consumption. I do so by studying a cash-in-advance framework, where, in addition to having a fixed amount of outside money circulating, a price-taking private banker can issue on-demand claims to said outside money, so-called demand deposits. Whether these demand deposits circulate or not as media of exchange is determined in equilibrium. I define equilibria where they don't circulate as *outside-money equilibria*, and equilibria where they do circulate as *mixed-money equilibria*. Within this framework, I show that the set of real allocations implementable as outside-money equilibria is a *strict* subset of those implementable as mixed-money equilibria. To prove the strictness part this statement, I characterize a set of real steady state allocations which are only implementable as mixed-money equilibria, *i.e.*, equilibria in which the private banker issues deposits which circulate as money. These steady states are characterized by a lower real interest rate, higher real quantities of credit and lower real quantities of saving than steady states without money-issuance. The gap between the quantity of credit and quantity of savings is made up by money-issuance. Further, these steady state have higher consumption by entrepreneurs (the borrowers), lower consumption by workers (the savers) and a higher—inefficiently high—proportion of production geared towards future goods rather than present goods.