Money & Banking

Economics

What money is, and how commercial banks create most of it.

Functions and creation.

Functions of money

Medium of exchange	Store of value
Unit of account	Standard of deferred payment

How money is created

Banks lend by crediting an account	The loan creates a matching deposit
Constrained by capital and regulation	Repayment destroys the money again

The money multiplier taught as a reserve mechanism describes the outcome poorly; capital requirements bind before reserves do.