

Fundamental Problem with Banks

You	
Asset cash Account	
+	-
\$100	

Deposit \$100 →

Bank	
Liability Deposits Payable	
-	+
	\$100

when you put \$100 in Bank on your Books it is Asset

when you put \$100 in Bank on Bank's Books it is a Liability

How Banks Get cash

①

Deposits (cash in) are Liabilities to Bank. Deposits are short term Debt. Depositors loan cash to Bank



Loans (Cash out) are Assets to Bank. Long-term loans are long-term Assets to Bank. Banks loan long term to people who want to borrow

② Bank pays a small interest rate to Depositors

Bank receives a larger (larger than this) interest rate from people they Lend to.

How Banks pay out cash

③

Depositors can withdraw cash quickly if they want.



The people who borrowed from bank pay back more slowly than depositors can make withdrawals.