

**ECONOMICS FOR  
EXECUTIVES: BANKING  
AND THE CREDIT SYSTEM,  
PP. 1-53 (NOT COMPLETE)**

Published @ 2017 Trieste Publishing Pty Ltd

ISBN 9780649245819

Economics for Executives: Banking and the credit system, pp. 1-53 (not complete) by George E. Roberts

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**GEORGE E. ROBERTS**

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# **ECONOMICS FOR EXECUTIVES**

A SERIES OF TWENTY-FOUR  
READING TEXTS WHICH CONSTITUTE  
AN INTERPRETATION OF  
THE UNDERLYING PRINCIPLES  
OF ECONOMICS AND BUSINESS  
FOR MEN AND WOMEN IN  
PRACTICAL LIFE

EDITED BY  
**GEORGE E. ROBERTS**



**AMERICAN CHAMBER OF ECONOMICS**  
INCORPORATED  
NEW YORK

READING TEXT XIII—ECONOMICS FOR EXECUTIVES

**BANKING AND THE  
CREDIT SYSTEM**

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GEORGE E. ROBERTS

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## BANKING AND THE CREDIT SYSTEM

### I

#### The Economic Functions of Banking

**T**HE essential economic significance of banking will be discovered by inquiring into the part played by banks in the organized processes of industrial society—in the production, exchange, distribution, and consumption of goods and services. Since the purpose of our present study is to get at essentials, we shall consider routine banking operations only to the very limited extent that is necessary, devoting major attention to the banking business as a whole and to the services which it renders to other kinds of business and to the public at large.

#### *Promotes Efficiency in Exchange*

The essential function of the banking system, like that of the monetary system, is to enable the process of exchange to be carried out with economy and efficiency. A great social economy is thus effected. To grasp



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this view of the general function of banking is the first step toward understanding each of the more special functions taken by itself, such as "lending" and "receiving on deposit."

These special functions are indeed absolutely essential to an institution in order to entitle it to call itself a bank. Incidental to them, in turn, are such activities as the transfer of funds from one person to another by the use of checks or drafts. Yet all these activities — lending, receiving on deposit, transferring funds, and the like—derive their importance from the function they perform in facilitating the exchange of products.

### *The Exchange Function*

We shall first undertake to describe this function, so that its outstanding importance may be kept in mind throughout our whole discussion. We shall then take up, one by one, several of the special activities of banking and show how they all assist in the discharge of the central and controlling function.

Since the making of collections and settlements by banks is most directly connected with facilitating the exchange of goods and services, we shall start our discussion by analyzing the process by which collections and settlements are accomplished. We shall next consider lending, which will include a discussion of deposits and of bank credit in general.

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Bank notes will be next considered, and we shall then be in position to go into the matter that is of most interest to all business men, the relation between banking activities and the rise and fall of prices.

### II

## The Economics of the Clearing Process

The service of the banking system in making payments, collections, and settlements rests on the existence of bank deposits, and the practice of transferring these by check. This practice has become so general in modern times, especially in the United States and in Great Britain, that most obligations in terms of money are settled by means of bank checks, or drafts, rather than in money.

This practice has grown up because of its convenience. Money in considerable sums is bulky, change cannot always be made to the exact penny, money is risky to keep and carry, and so difficult to trace when lost that recovery is almost impossible. A check also has the advantage of supplying a record of payment and receipt.

Thus in many respects it is more satisfactory to draw an order, or check, on a banker

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and use it as direct medium of payment, than to have the check cashed and then deliver the actual cash to a creditor. For like reasons, those who receive checks in payment of debts and thereby hold claims against banks, do not desire to have these claims paid in cash. They would rather deposit them in a bank and draw against the deposit thus created.

### *Economizing the Use of Money*

The convenience offered by checks explains why they are so widely used, but it does not explain why the practice effects substantial economies, not only to the individuals who use checks but to the whole community as well. In order to make these economies evident we must consider some technical phases of the process by which the banks handle the checks that go through their hands. An analysis of what is known as "clearing" is in order. The outcome of the analysis will be to demonstrate that the clearing process enables the community to accomplish the exchange of goods with much greater economy than would be possible if all trade were conducted with money. The saving appears first in the use of money and then, more fundamentally, in time and effort. We shall resort to a series of simple examples to illustrate these points.

Consider, first, the case of a community