

An Overview of Banking and Finance in Circuit Theory

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Abstract : This paper creates a method for examining the interwoven roles of banking and finance in a monetary production economy by drawing on monetary circuit theory. The paper suggests a micro-founded, circuit-sequenced model of a decentralized-decisions economy in which banks and non-bank financial intermediaries, respectively, create and allocate money to integrate production, trade, and investment from households and businesses. The model is used to make inferences about the link between saving and investing, the unique characteristics of banks and the function of non-bank financial intermediaries, and the ways in which finance may lead to the breakdown of the circuit process. The application of the circuit method to an integrated examination of financial and economic structural change is also included in the paper.

Keywords : banking, finance, circuit theory, decentralized economy

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