

Fractional reserve banking dissertation

[Finance](#), [Banking](#)



Chapter 1

1. 1 Introduction

Fractional reserve banking concepts, theories and a real life case of debate by the Bank of England Governor Mervyn King have been investigated in this dissertation from a perspective differed to the mainstream. There have been controversy on the discussion on the nature and uprising of fractional reserve banking. Therefore, the author believes a need for awareness on the history and nature on subject is worth identifying. The approach mentioned above is expected to form a new angle on the issue investigated and conducting further insight for a more dynamic instead of a static framework in forthcoming research.

Based on extensive reviews on texts, books, research papers and websites. Appropriately, from the literature review, the author would consider fractional reserve banking as a widely spread banking system in which allows banks to create money in a banking system by lending a fraction of its deposits while keeping only a small fraction of the original deposit as a reserve available for withdrawal and daily operations. This kind of de facto banking operation system has been legit and practiced by all commercial banks.

Accordingly, a vast amount of publications have been stating the goldsmiths were the inventors of this banking mechanism. In this dissertation, the author would be looking into the background of a brief history of fractional reserve banking in the 17th century, as this operation has been operating throughout the globe in every commercial banks for decades. In addition, a

critical review Fractional Reserve Banking as a system as a whole and its affects on our modern day society. And by explaining some common misconception on fractional reserve banking and full reserve banking. In addition, evaluating a case of speech by the Bank of England Governor Mervyn King and the Bank of England's view on this banking system and concluding with some perspective on future development and reformation on the current fractional reserve baking system.

1. 2 Research Aim

The aim of this research is to investigate, identify and indicate the existing critical factors and problems behind the fractional reserve banking system in the UK by going through a critical literature review and a case on the Bank of England's Governor Mervyn Kings' speech on the subject and identifying possible reform suggestions. In order too achieve the research aims, the following objectives below have been set.

1. 3 Research Objectives

This research approach is expected to investigated and identify the background history, insolvency and possible reform suggestions in the current fractional banking system in the UK. It will mainly focus on critical analysis and literature review andcase studyon fractional reserve banking, full reserve banking, critiques on fractional reserve banking and possible reform suggestions from a financial and ethical perspective. In order too fulfill research approach, the research objectives have been created and summarized as follows:

Firstly, identify the concept and background of fractional reserve banking, capital reserve ratios, full reserve banking and reform proposals by reviewing literatures.

Secondly, find out the history and possible up rising of fractional reserve banking.

Thirdly, distinguish misconceptions and critical analysis on fractional reserve banking.

Fourthly, explore and recognize key factors and problems above the theories by critical analysis on the selected case study.

Fifthly, perceive possible reform suggestions to the current fractional reserve banking system.

1. 4 Research Method

In order to achieve a high standard quality of result, it would be important to identify the research method and methodology. General business research stages will be followed in the research process. The general business research stages includes defining the objective, planning a research design, planning a sample, collecting data, analyzing the data, framing a conclusion and lastly, preparing the report (Zikmund, 2003)

The main research method in this research approach would be literature review. In order to maintain a high quality and thorough systemic research; gathering supportive information, theories and frameworks includes

published researches, academic journals, case studies, academic publications is necessary.

1. 5 Dissertation Structure

Chapter one is an introduction briefly introducing some background information, research aim, and objectives for this research approach.

Chapter two largely focus on the relevant literature reviews to the research project which consists of history on fractional reserve banking, definition and concepts and misconceptions on the subject. The literature review is to identify supportive and relevant information to the research area and focus.

Chapter three will be providing an overview on the methodology and research method selection, supportive software used for extensive comparative analysis and the chapter will also be identifying data formulation.

Chapter four will be revealing the research result, findings and case analysis, which is supportive, and relevance to the further discussion.

Chapter five will be concluding the research paper with suggestions for reform and points out critical factors uncovered in this research approach, and future improvement.

1. 6 Limitation

Because of exceptionally limited time in the whole research process, the result and quality of the research paper is therefore in constriction. On the other hand, a lack of up to date literatures and researches in terms of

critiques on fractional reserve banking has inevitably increased the difficulty in acquiring expressive and reliable data in the systemic approach. As stated above, therefore the author would have a level of difficulties in obtaining the perfect research result.

Chapter 3 Methodology

3. 1 Data Sources

The research frameworks are well organized and carried out accurately in order to achieve a research result as precise as possible.

First of all, to understand the importance of the research methodology, the research process will be identified and explained. In this case, relevant literature review from all possible sources and formats from books, journal articles, thesis and the internet will be included as the primary source of data. The secondary, research data format would be using a case study as its function is to verify arguments from other sources and helps drawing views and debates on the nature of the subject.

3. 2 Methodology Approach

3. 2. 1 Data Samples

The method adopted for this research project involved extended on-site visits to Thomson One Banker and Emerald Journals. In addition to it, SSRN research database Accordingly, Thomson One Banker represents the most important data source. A relevant case from the data sources was carefully selected to achieve a better understanding of the factors and critiques on

fractional reserve banking. The author also implemented additional press research to verify the data in the Financial Times and The Economist.

3.3 Selection of Research Methodology

In this research paper, the author tends to apply case study approach and sources of data from literatures. Which emphasize on observing and reasoning as a result of understanding the nature of the phenomena in terms of expressing the observation the author's point of view. The case study method is also known as the realistic analysis that studies a current phenomenon within its present-day and real life perspective involving various sources of data (Yin, 2003). Anderson (1998) added that the case study approach is about the exploration of contextual realities and dissimilarities between what was planned and what have actually occurred in terms of who, why and how things happen. As well, Edge and Coleman (1986) mentioned that the case studies enable researchers to gain high degree of confidence in their judgment and verdict, which as well improve the degree of humility.

The case study approach is a common use of technique of corresponding to what, who, when and how things happen. Therefore, the case study approach is chosen in order to assist the author to deliver a conclusive debate. From a several source of supportive evidence, literature review and case study enables the author to look deeply into real life happenings. Furthermore, An explanatory case study offers the data and perception based on cause-effect relationships, responding to whom, why and how things happen in its natural context that includes the point of view of the

participants (Kos, 1991). And throughout the methodology progress, it has been a great media of increasing the existing understanding of the processes by businesses and other organizations implemented, this is because it is a way of creating consistent and yet valid evidence.

3. 4 Limitations

Arising from the extensive case studies and literature reviews, the research methods can hardly be factually completed due to the limitations of the research approaches. There are at least three obstacles in obtaining unbiased references from the methods chosen.

Potential inadequacies in this research include the large amount of data, which may have led to missing important data or overweighting some findings due to focusing on a particular and big set of data. Besides, it is possible that revisiting the data would reveal other issues and aspects would occur. Moreover, a research study generally is limited to descriptions of what the author gathered from the case study and literature reviews analyzed, which also limits the ability to generalize the results.

On the other hand, the research study is time-consuming to gather and even so it takes lots of time to analyze as cutting corners on either of these aspects can probably cause to lower the value and credibility of the research paper. As a result, the author might or might not give valuable data in the time given. Besides, the author faces the challenges in representing of the information gathered. Every researcher has different ways of presenting the same set of data based on different styles and emphasis which leads the author to have difficulties in summarizing the data collected.

Shionoya (1992) defines that methodology is known as the philosophical study of reason behind a prescribed use of methods. Consequently, studies of various definitions, concepts and theories are preferred to verify the functions and importance of methodology. This study correspondingly indicated the purpose for applying different methods and clarified the motive of a specific method which in terms of aiding in framing the particular discussion. Consistently, this theory is considered as predictable and recognizable.

As quoted from Easterby-Smith et al (1993), the discipline which investigates and evaluates methods of inquiry, of validation, of teaching etc., a theory within that discipline. It is important to pay attention that methodology is about method and not the same as method (Easterby-Smith et al, 1993). Accordingly, as there are different emphasis within methodology and method, this theory has distinguished the point on investigation and evaluation which has illustrated the methodology and method noticeably. However, in terms of the distinctive yet complex methodology, as the theories gathered and examined is the result the research in which that the real functions might influence the research, therefore, there are still many components to be considered within the research process.

In fact, there are array of research methods available is widespread. Khairul (2008) mentioned that the choice of which method to employ is dependent upon the nature of the research problem. However, the actual suitability of a research method comes from the nature of the social phenomena should be explored (Morgan and Smircich, 1980). In substance, Remenyi and Williams

(1993) presents as many as 20 types of qualitative methods and Creswell (1994) proposes basic methodological traditions of research namely ethnography, grounded theory, case study and positivism and post-positivism for phenomenological studies. In addition, Quinn-Patton (1987) offers various methods for consideration.

Methodology unquestionably can be used as a decision-making procedure, which is carried out for guidelines of one or more analysis or suppositions. Khairul (2008) stated that a paradigm is a hypothetical design that likely to classifies the researcher's reality yet one may not be aware of it.

Consequently, there is a connection of theoretical decision making to strategies of collecting different backgrounds and different types of figures. Furthermore, the choice of which appropriate method to employ is important in terms of those available background information and figures.

Under the circumstances, it is clear that every type of methodologies and methods has explicit and implicit research design. Accordingly, methodologies and methods shape the research process in terms of questions asked and answers received, as well it privileges specific ways of knowledge. In the main, paradigm and perspectives are taken adequate account in the framework of the research. Thus, research methodology is the way showing researchers conduct their researches.

A paradigm is defined as a worldview representing people's value judgments, norms, standards, frames of reference, perspectives, ideologies, myths, theories, and so forth, in terms of managing their thinking and actions (Gummesson, 1991). As cited from Leedy (1997), there are mainly

two basic methodological traditions of research derives from the nature of reality, known as positivism and post positivism namely phenomenological. In order to maintain the analysis of the phenomena, sufficient information and precise elements might be required in positivist paradigm.

Conversely, the use of several sources of information can help extensively in improving the validity and reliability of the research. By studying every aspect of the problem from as many angles as possible, and by using different sources of data, the case study research strategy is a powerful research tool in the hands of a capable researcher (Hodkinsons, 2001). It is believed that bias is everywhere but it can be minimized with following the steps as mentioned above. The author understands that it is the crucial task in the research paper to reduce the bias level.

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