Critical thinking on banking regulation

Business, Company

Banking regulation

Banking regulation is the government's way of monitoring bank operations by enforcing rules and regulations that banks have to adhere. The Federal Reserve oversees the enforcement of the banking regulations. Through banking regulations, the government can control the economy in terms of the money in circulation. Banking regulations affect the manufacturing companies just like every other sector of the economy.

A regulation on banks will be beneficial to the manufacturing industries. This will be in the form of reducing the costs of the industries through transaction costs. Banking regulations will provide for capping the monthly transaction fees for manufacturing companies. Since these companies have so many transactions every month, they will only pay a fixed amount as a transaction fee which is less than if the transaction costs are charged per transaction.

Banking regulations such as the minimum requirement are of importance to manufacturing industries for two reasons. First, it acts as a way of assuring clients that the banks are going concerns with enough liquidity to be trusted when a company wants to open a bank account. Secondly, it is an assurance that when a company has deposited its money in a bank, the money is secure and there is no risk of the bank collapsing.

The financial reporting requirement promotes confidence of the public and manufacturing companies in banks. This is because banks disclose their financial details and their accounts audited to show transparency and financial stability.

Regulations also promote industrial growth. This is because with inflation and money supply in control through the banking regulations, it is possible for the manufacturing industries to embrace expansionary growth and increase their efficiency because of favorable economic environment. This will be passed on to the consumers since the commodity prices will be affordable.

References

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