

Commercial Bank Balance Sheet Exercise
Due November 21, 2006

In this exercise, you will use information that you obtain from your text to describe the operation of commercial banks in the United States. You will also use information from Federal Reserve statistical release H8, "Assets and Liabilities of Commercial Banks in the United States." The relevant parts of the release are attached.

Page 1 of the statistical release reports the assets and liabilities of all commercial banks in the United States. I have attached the page for November 2006 and November 2000. Please use these data to answer the following questions.

1. What are the most important sources of funds for commercial banks?
 - a. Who provides these funds to the banks?
 - b. What does the bank provide in return?
 - c. What share of bank funds is accounted for by checkable funds?
2. What are the most important uses of funds by commercial banks?
 - a. What sort of assets do commercial banks hold?
 - b. Does the balance sheet explain why banks are always potentially vulnerable to bank runs?
 - c. Is there a sense in which commercial banks "create" liquidity. What data from the balance sheet speak to that issue?
3. How well capitalized are banks today?
 - a. How does one measure bank capital using a balance sheet?
 - b. What does "well capitalized" mean?
4. What trends in the sources and uses of funds are apparent in a comparison of the data for 2000 with the data for 2006?

Page 9 of the statistical release reports the assets and liabilities for small domestically chartered commercial banks in the United States again for 2006 and 2000. Please use these data to answer the following questions.

1. According to the data, how are small commercial banks different?
2. Do the data contain evidence of consolidation in the banking industry? How so?
3. What trends involving small banks are apparent in a comparison of the data for 2000 with the data for 2006?

Prepare a 1-2 page report with the answers to your questions. In your report make specific references to the data to support your conclusions.