The difference between **full-reserve banking** and **fractional-reserve banking** lies in how banks manage deposits and issue loans:

**Full-Reserve Banking**

1. **Definition**: Banks are required to keep 100% of customer deposits in reserve at all times. They cannot lend out any portion of these funds.
2. **How it works**:
   * Depositors' money is fully backed by liquid reserves (cash or central bank reserves).
   * Banks generate income through service fees or other non-lending activities instead of interest from loans.
3. **Advantages**:
   * **Stability**: Eliminates the risk of bank runs because all deposits are always available for withdrawal.
   * **Simplicity**: Banks act solely as safekeeping institutions.
4. **Disadvantages**:
   * Limited or no ability for banks to create money through lending.
   * Credit availability might be reduced, impacting economic growth.

**Fractional-Reserve Banking**

1. **Definition**: Banks are required to keep only a fraction of customer deposits in reserve, lending out the rest to borrowers.
2. **How it works**:
   * A fraction of deposits is kept in reserve (e.g., 10%) to meet withdrawal demands.
   * The remaining portion is lent out, effectively creating new money in the economy.
3. **Advantages**:
   * **Economic growth**: Enables credit creation, fueling business investment and consumer spending.
   * **Profitability**: Banks earn interest on loans, supporting their operations and growth.
4. **Disadvantages**:
   * **Risk of bank runs**: If too many depositors withdraw their money simultaneously, the bank may not have enough reserves to cover the demand.
   * **Leverage risks**: Excessive lending can lead to financial instability and crises.

**Key Difference**

* **Full-reserve banking** ensures all deposits are safeguarded and unavailable for lending, while **fractional-reserve banking** allows banks to lend a portion of deposits, thereby creating money and boosting economic activity but introducing systemic risk