Financial Institutions

What are financial institutions Any institution through which savers can directly provide to borrowers / facilitates interactions between saver and borrowers.

Financial System Institutions in the economy that help match the saving of one person with the investment of another.

- Financial markets
- Financial Intermediaries / Banks

Saver Someone who gives their money to financial institutions for safe keeping. Savers spends less than what they save.

Nominal Interest Rate Nominal Interest Rate = Real Interest Rate + Inflation Rate

Financial Intermediation The process of savers depositing money in banks, which then lend the money to borrowers.

Investment Investment is the purchase of new capital goods.

National Savings National Savings $=$ Public Savings $+$ Private Savings

Public Savings Savings made by the government and public institutions. This saving is made when the government's revenue (Tax) exceeds its spending (G). i.e.

Public Savings $= T - G$

Where T is the tax revenue and G is the government spending.

Balanced Budget $T = G$

Budget Surplus $T > G$

Budget Deficit $T < G$

Financing of Budget Deficit In the situation where the government spending exceeds its revenue, the government can finance the deficit by:

- Borrowing:
  - Domestic:
    - From the public
  - External:
    - From foreign countries
- Aid and Grants
- Printing Money

Private Savings Saving by individuals and firms. This saving is made when the income of individuals and firms exceeds their consumption.

Private Savings $= Y - C$

Where Y is the national income and C is the consumption.