

Financial markets are nowadays more important than ever. Financial crisis of the previous decade demonstrated their power to influence stability of the whole economy. Since the consensus blames weak regulation and considers the only solution to be its extension, this thesis tries to provide the proof of existence of other options. The focus is firstly aimed at the weaknesses of the fractional reserve banking, which does not follow the basic legal principles of a deposit contract. This practice results in price fluctuations and favoritism of first takers of newly created money. Moreover, the thesis develops a new method of analysis, which emphasizes the application of preferences in exchanges. Important outcome of this method is the demonstration that the public does not have to always prefer the most evolved form of institution. All institutions within commercial banks are then analyzed with the use of this method and the thesis shows where preference channels are being interfered with. This analysis also reveals another outcome of fractional reserve banking, which is that the newly created money is only used according to the preferences of commercial bankers. We suggest that circumvention of the true nature of a deposit contract leads to a similar outcome in loan banking, where funds gathered by loan products are again allocated by the preferences of bankers. It is further shown that by application of wider preference channels from depositors and creditors of banks the society could gain some considerable benefits. The magnitude of these benefits can be described by the fact that the funds allocated by preferences of commercial bankers are equal to a quarter of the entire current US bond market. It is for these reasons that the thesis questions the economic rationale that backs the support of strong regulation policies of banking, which ultimately lead to the support and forced persistence of only one form of deposit banking.