Faculti Summary
https://faculti.net/failing-banks/

This video discusses the history and causes of bank failures, particularly focusing on the relationship between bank solvency and the occurrence of banking crises. It highlights two main explanations for bank failures: one is the "bank run" theory, which suggests that fear of losing deposits can trigger a run on a bank, leading to its demise even if it is initially solvent. The second explanation points to deteriorating solvency driven by factors such as credit risk and interest rate risk, which can cause banks to fail irrespective of any runs.

The documented evidence shows that bank failures due to widespread crises lead to significant macroeconomic downturns, as seen in historical events like the Great Depression and the 2008 financial crisis. The analysis emphasizes that failing banks typically exhibit warning signs years before their failure, including rising non-performing loans and increased reliance on expensive forms of funding.

The study further asserts that approximately 80% of bank failures can be attributed to insolvency rather than panic. Historical data supports this assertion, revealing that bank runs often respond to banks' poor fundamentals rather than being the root cause of failures. Thus, the authors argue that focusing on maintaining or restoring bank solvency should be a key strategy for policymakers to prevent and address bank failures, rather than solely preventing bank runs with liquidity support.