

Xraying Economic and Financial Theories of Distribution of Banks' Credits and Profitability of Banks

EFUNTADE, Olubunmi Omotayo, PhD

Federal University Oye-Ekiti, Ekiti State, Nigeria. email: bunniefuntade@yahoo.com

EFUNTADE, Alani Olusegun, FCIB, FCA

Federal University Oye-Ekiti, Ekiti State, Nigeria. email: alaniefuntadee@yahoo.com

JEL Codes: B52, G14, G21, G32

DOI: 10.56201/wjfir.v7.no2.2023.pg28.48

Abstract

The paper reviewed Theoretical framework, neo-classical economics and modern finance theory: Commercial Loan Theory, Credit Risk Theory, Theory of Bank-Based Financial System, Debt intermediary hypothesis, Preference-Adverse Selection Theory, Financial Intermediation Theory, Supply leading theory, Loan Pricing Theory, Shiftability Theory Of Liquidity, Agency Theory, Theories of Economic Growth, Harrod–Domar Model, Solow–Swan Model, Theories of liquidity management, Liability/Liquidity Management Theory, Liquidity Preference Theory, theories of profitability, Profit Maximization Theory, Clark Theory of Profitability, Schumpeter Theory of Profitability, Income Theory of Money, Anticipated Income Theory, Portfolio Theory, Asset Liability Management Theory, Neo-Classical Theory of Interest Rate, Classical theory of political economy and development, Pecking Order Theory (POT)/Hypothesis Of Lending, Financial Repression Hypothesis, Asymmetric Information Theory, Pro-Concentration Theory, Trade-off Theory and Signaling Hypothesis as it relates with Banks' credits, profitability of banks. Many economists have stressed that banks as a major component of financial system, provide linkages for the different sectors in order to ensure the attainment of the macroeconomic objective of government. A bank is a financial intermediary that accepts deposit from customers and channels the amount mobilized to borrowers in the form of loans and advances. Bank credits represent the amount of loan and advances to individuals and organizations from banking system. The likes of McKinnon (1973) and Shaw (1973) noted that the efficiency of financial intermediation is affected by regulatory regime at a point in time. Deregulation involves a regulatory framework that permits the development of competitive system where consumers are served at reasonable cost. In other words, it is believed that liberalization allows for a market driven intermediation which leads to competition and efficient allocation of credit to sectors that are better able to use it productively. In conclusion, anticipated income theory serves as a major theoretical undepinning of banks' credit and profitability cum liquidity management policies and equally analyzes borrowers' credit worthiness. The theory also provides the banks with the criteria for evaluating the potentials of a borrower to successful repayment of loan on time which ultimately affects the interest income which can be used to influence the liquidity position of a bank. Moreover, the theory holds the view that if credit were adequately managed, interest income will

be influenced, which will affect the investment opportunities and ultimately increase the liquidity position of the bank.

Keywords: *Theoretical framework, neo-classical economics and modern finance theory, banks' credits, profitability of banks*

1.0 Introduction

Many economists have stressed that banks as a major component of financial system, provide linkages for the different sectors in order to ensure the attainment of the macroeconomic objective of government. A bank is a financial intermediary that accepts deposit from customers and channels the amount mobilized to borrowers in the form of loans and advances.

Bank credits represent the amount of loan and advances to individuals and organizations from banking system.

According to Schumpeter (1911), the role of financial intermediation is central to economic development. The financial intermediation role of the banking system affects the allocation of savings, thereby improving productivity, technical change and the rate of economic growth hence played a pivotal role in economic development. "The banker stands between those who wish to form new combinations and the possessors of productive means. He is essentially a phenomenon of development, though only when no central authority directs the social process. Financial intermediation theory first formalized by Goldsmith (1969), McKinnon (1973) and Shaw (1973), describes financial market as playing the central role in economic development. They attribute differences in economic growth experienced in different countries to the quality and quantity of services provided by financial institutions. McKinnon argues that complementarity exists between money and physical capital and it is manifest in money demand. Shaw argues that efficient financial intermediation consequent to financial deregulation stimulates incentive to save, as well as investment as a result of rising supply of credit (Nnanna, Englama & Odoko, 2004).

The financial services provided by banks is essential to economic and financial development. Their role as financial intermediaries facilitates rapid economic growth. Financial stability is vital for any nation so therefore the financial institutions need to be properly managed. The velocity of loan creation in an economy significantly influences the productive activities in a nation. The main motive of a bank is to redirect funds from the surplus sector to the deficit sector in a profitable and sustainable manner. Interest on loans and advances are the main sources of income for a commercial bank, by given out loans, banks are exposed to different forms of risks e.g. liquidity risk, credit risk, etc. (Kargi, 2011). Cost and risk of financial intermediation depends on the forces of demand and supply as tested using the supply leading and demand following hypothesis (Nazifi, Magaji, & Amase, 2022). There are various theories about the correct mode of operation of banks lending for industrial and economic development.

2.1 Theories of Financial of growth

2.11 Commercial Loan Theory

This theory was developed by Adam Smith in England in the 18th century (Sanghani, 2014). It was developed in the nineteenth century (Sanghani, 2014). The commercial credit theory or the real bills doctrine states that a commercial bank should only make short-term, self-liquidating productive loans to firms that improve the commercial bank's profit situation through interest on the loan. Loans to finance the production and development of goods in the successive stages of production, storage, transportation and distribution are considered self-liquidating loans.

The oldest theory of banking is the commercial loan theory, also called the real bills doctrine. The commercial loan theory holds that banks should lend only on short term, self-liquidating, commercial paper. According to Hosna & Manzura (2009), the commercial loan theory is geared to influence persuasively both the bank lending and the general economic activities. Strict adoption of this theory will reveal that it is expected to serve as a monetary supply to changes in aggregate economic activity.

Proponent of this theory maintains that commercial liquidity will be assured as long as -its' assets are held on short-term. Funds that could be liquidating in the normal course of business, the theory holds that since bank liabilities are principally repayable on demand or at very short notice, bank lending should be confined to short -term working capital advances for financing production, storage and movements of goods, the final sale of which will provide fund for repayment such loans are said to be self -liquidating. The theory posits that commercial banks, because of their funding base, should make only short -term self-liquidity productive loans.

Kargi (2011) posited that the strong tie to this conception is rather orthodox if consideration is given to the fact that at the time of the supremacy of the theory, there were little or no secondary reserve assets, which could have served as a liquidity buffer for the bank.

2.12 Credit Risk Theory

Credit risk according to Devi and Pant (2018) refers to the risk that a borrower will default on any type of debt by failing to make required payments. The risk is primarily that of the lender and includes lost principal and interest, disrupt loss may be complete or partial and can arise in a number of circumstances, such as an insolvent bank unable to return funds to a depositor. To reduce the lenders risk, the lender may perform a credit check on the prospective borrower, may require the borrower to take appropriate insurance, such as mortgage insurance or seek security or guarantees of third parties. In general, the higher the risk, the higher will be the interest rate that the debtors will be asked to pay on the debt (Owojori, Akintoye & Adidu, 2011).

2.13 Theory of Bank-Based Financial System

This theory posits that banks plays vital role in the development process of any nation. In developing economy, the bank has more prospect to financing developmental project more than any other financial institution in the state. According to Levine (2002), agency problem and that of asymmetric information arises as a result of market imperfection, which can

be fixed with the introduction of the bank-based systems this helps in fixing resource allocation problems. The information sourced by investors is revealed publicly, at little, or no cost in a well-developed market, the bank-based system mitigates the risk and loss involved in seeking and acquiring additional information by investors.

2.14 Debt intermediary hypothesis

Debt intermediary hypothesis was proposed by Shaw (1973), whereby expanded financial intermediation between the savers and investors resulting from financial liberalisation (higher real interest rates) and development increase the incentive to save and invest, stimulates investments due to an increase supply of credit, and raises the average efficiency of investment. This view stresses the importance of free entry into and competition within the financial markets as prerequisites for successful financial intermediation. They labelled the main rudiments of financial suppression as: High reserve requirements on deposits; Legal ceilings on bank lending and deposit rate; Directed credit; Restriction on foreign currency capital and Restriction on entry into banking activities.

2.15 Preference-Adverse Selection Theory

The theory propose a simple model with preference-based adverse selection and moral hazard that formalizes the cherry picking/propitious selection argument. This argument assumes that individuals differs in risk aversion, potentially resulting in more risk-averse agents buying more insurance while being less risky.

The adverse selection theory works on the premise that borrowers repay loans when they have the ability to pay. Any financial institution that loaned money to any company that is limited by shares is only permitted by law to recover her money from the company's assets. In this regard, if the company had no valuable assets the lenders bears the losses that cannot be recouped from the debtors or such limited liability companies (Tobin, 1965). Financial institutions (banks) are therefore constrained whether to increase interest rates or not. This is because reduction in interest rate would attract more applicants which will also lead to more profits and at the same time increases NPLs or defaulters in servicing their loans. While an increase in interest rate will discourage borrowers, reduces profit and also reduces NPLs.

Although, banks cannot be in business without granting loans since that is their major source of income. This theory argued that banks should go an extra mile to get information about their customers' credit history. And banks should not hoard information about any clients from other banks. With the aid of information sharing, banks can have access to information about their own clients and other clients from another banking sector within and outside their jurisdiction. Alternatively, customers' credit worthiness can be checked using credit rating check or credit worthiness check with the consent of the borrowers.

2.16 Financial Intermediation Theory

McKinnon (1973) and Shaw (1973); Goldsmith (1969) discovered that the financial market plays an essential role in economic development. The level of development is dependent on the

quality and quantity of services provided by the financial institutions in the country. Financial institutions help in bridging the gap between surplus spending unit and deficit spending unit by making fund available to deficit unit at a reasonable amount which helps in making capital available for further production to take place thereby propelling the growth process in the country's financial markets. Goldsmith (1969) pointed out that development in any country is dependent on how financial institutions encourage efficient use of capital stock.

This was developed by Gurley and Shaw (1955) in order to solve the shortcomings that were discovered in the direct financing method. It explains the importance of the intermediation process of credit allocation in the economy as a whole. The theory is based on the assumption that financial intermediation causes more funds to be available to the productive sector of the economy which will increase production, then lead to eventual growth in the economy. Consequently, efficient allocation of credit has the potential to cause high level of employment generation and income which invariably enhances the level of economic development (Nwite, 2014). Thus, the key factor in the growth process of any economy is investible funds.

The relevance of this theory to the study is that DMBs are indispensable elements in the economic systems since they are major providers of finance and facilitators to flow of credit. Based on these, the theory suggests three important roles credit play in economic growth (Levine, 1999 and Watchel, 2001). First, it improves the screening of fund seekers and the monitoring of the recipients of funds. This improves the allocation of resources. Second, it encourages the mobilization of savings by providing attractive instruments and saving vehicles. Finally, it provides opportunities for risk management and liquidity. These therefore promote the development of both credit markets and the use of credit instruments with attractive characteristics that enable risk sharing. Moreover, Greenwood and Jovanovic (1990) asserted that efficient credit allocation and development of banks contribute immensely to the growth of the economy by intermediating between the savers and investors. This implies that the banking sector is an indispensable element in the economic systems. Therefore, the development of the financial system plays a role in the economic well-being of any nation (Agu, 1988; Venkati, 2016).

2.17 Supply leading theory

The supply leading theory postulates that the existence of financial institutions like the Nigerian deposit money banks and the supply of their financial assets, liabilities and related financial services in advance of demand for them would provide efficient allocation of resources from surplus units to deficit units, thereby leading to other economic sectors in their growth process. This theory performs two functions first it transfer resources from traditional sectors to modern sectors and second, it promotes and stimulates an entrepreneurial response in the modern sectors. The supply leading financial intermediation can be linked to the term 'innovation finance'. Hence, one of the most significant effects of supply leading approach is that, as entrepreneurs have new access to the supply leading funds. Their expectation increase and new horizons as to possible alternatives are opened, thereby making the entrepreneur to think big. The supply leading theory presents an opportunity to induce real growth by financial means. Its use, analysts believe is more result oriented at the early level of a country's development than later. This

theory makes it clear that higher interest rate makes it more expensive for SMEs to borrow money, which means that enterprises invest less and when they do that, income are reduced such that the amount left over for savings equals the lesser amount now invested.

2.18 Loan Pricing Theory

This theory state that banks cannot always set high interest rates. Banks should consider the problems of adverse selection and moral hazard since it is very difficult to forecast the borrower type at the start of the banking relationship (Stiglitz & Weiss, 1981). Credit institutions are influenced by a huge number of factors in their pricing decisions: counterparties' characteristics, which are the factors determining their probability of default (PD); facilities' characteristics, such as the presence of guarantees or collaterals, the loan maturity; bank characteristics, related to both the asset side and the liability side of their balance sheet, such as the degree of diversification of the credit portfolio, as to the asset side, or the cost of their funding, as to the liability side; external factors, partly related to the market, such as the availability of hedging instruments or the existence of an active secondary market for loans, and partly having reference to the regulatory framework to which the banks are subject.

The paradigm of value creation for bank shareholders spurs managers to increase their firms' profitability, without neglecting a general improvement of the overall performance. This, together with the regime of capital requirements recently introduced by the Basel Committee on Banking Supervision, drove bank managers to massively invest in the development of effective risk-adjusted performance measures (RAPMs). Within Pillar 1 of the new Capital Accord (Basel II), the Basel Committee defines the methodologies to calculate capital requirements for credit, market and operational risks. As far as credit risk is concerned, Basel II allows banks to choose between two approaches for determining their capital requirements: the standardised approach, which basically refines the old set of risk weights proposed in the 1988 Capital Accord (Basel I), introducing the use of external ratings and leaving essentially unchanged the capital charges for loans to unrated firms; and the internal ratings based (IRB) approach, which allows banks to use their own internal estimates of the credit risk components. The counterparty riskiness, and the consequent capital charge, depends on its PD, the loss given default (LGD), i. e. the loss that the bank would face for a specific loan facility in case the borrower defaults, the exposure at default (EAD) and the loan maturity (M). Credit risk can generate two types of losses, known as expected loss (EL) and unexpected loss (UL). Implications of Basel II on bank loan pricing methodologies have already been investigated by previous literature, although not extensively owing to the recent publication of the new Capital Accord.

2.19 Liability/Liquidity Management Theory

Liquidity management theory according to Dodds (1982) is a strategic plan on the acquisition funds from depositors and other creditors, and the determination of an appropriate (term based) mix of such funds for a particular bank. It focuses on the liability side of bank balance sheet on the ground that supplementary liquidity could be derived from the liabilities of a bank. Nwankwo (1989) supports this position by arguing that given banks' capacity to purchase all requisite funds, it is inappropriate to have liquidity on the asset side (liquid asset) of the statement of financial position.

2.20 Shiftability Theory Of Liquidity

The shiftability theory focuses on the liability side of the balance sheet. The theory contends that supplementary liquidity could be derived from the liabilities of a bank, therefore, shiftability, marketability or transferability of a bank's assets is a basis for ensuring liquidity. The theory further contends that highly marketable security held by a bank is an excellent source of liquidity. The proponents of this view argued that a bank's liquidity could be enhanced if it holds specified liquid assets required to sell to the Central Bank and the discount Market (interbank window) provided they are ready to purchase the asset offered at discount. According to Nwankwo (1991) argues that since banks can buy all the funds they need, there is no need to store liquidity on the asset side (liquidity asset) of the balance sheet. It pertinent to note that liquidity management theories have been subjected to critical review by various scholars. The general consensus however is that during period of distress or crisis, banks with grave financial conditions and downgraded status may be challenged in obtaining the desired liquidity because the investors/depositors confidence in them has been eroded. This is however not the case with healthy or financially sound banks, which liabilities (deposits, market funds and other creditors) constitute a major component of their liquidity sources as their liquidity strain may be less severe.

Dodds (1982) posits that liability management theory consists of the activities involved in obtaining funds from depositors and other creditors and determining the appropriate mix of funds for a bank. He argues that to ensure convertibility without delay and appreciable loss, such assets must meet three requisites and sought answers to the following questions: how do we obtain funds from depositors? How do we obtain funds from other creditors? What is the appropriate mix of the funds for any bank? He concluded that management should examine the activities involved in supplementing the liquidity needs of the bank through the use of borrowed funds.

It would be quite acceptable for a bank to hold short-term open to Hosna & Manzura, (2009)), the shiftability theory had a profound effect on banking practices can hardly be denied. What it did, basically was to redirect the attention of bankers and the banking authorities from loans to investments as a source of bank liquidity. Indeed, proponents of the theory argued that the liquidity of short-term, commercial loans was largely fictional in any case. According to Kargi, (2011), as with the commercial loan theory, however, the shiftability theory contained a serious flaw. (Actually, this flaw did not lie so much in the theory itself-it was well understood by the various writers on the subject as

The shift ability theory of liquidity is also of the view that banks can insulate themselves against massive deposit withdrawals by holding, credit instruments for which there is a ready secondary market as a form of liquidity reserve. Among the liquidity reserve are commercial paper, prime bankers' acceptances and Treasury bills. These instruments are marketable because of their short-terms to maturity and capital certainty (Mugenyah, 2015).

Thus, holding liquid assets with a ready market enables commercial banks to minimize vulnerability to liquidity risk. The theory is directly linked to function of risk-transformation which commercial banks undertake (Okpala, 2013). This theory follows two

strands of literature. The first strand is that liquidity creation exposes commercial banks to risk (Diamond & Dybvig, 1983). It basically implies that the more liquidity is created the higher the probability and greater severity of losses associated with having to sell-off illiquid assets in order to meet the demand of clients. The second strand argues that commercial banks capital absorbs risk and expands banks' risk-bearing capacity (Okpala, 2013; Von Thadden, 2004). The risk absorption hypothesis predicts that higher capital ratios are positively related to liquidity levels and enhances the ability of banks to create liquidity (Mugenyah, 2015).

2.21 Liquidity Preference Theory

The theory was developed by Keynes in 1936. According to him the interest rate should be viewed as a monetary matter. It is considered as a return for parting with liquidity and, therefore, the rate of interest is the direct outcome of the demand and supply of money. He underscored that the demand for money are driven by transactionary, precautionary and speculative motives. This means that people keep money to meet with their day to day expenses, sacrifice the interest and keep the funds as a precautionary measure and to meet unforeseen expenses and when interest rates increases; they decide to hold less cash and invest their funds to get more profit. In this theoretical context, it is suggested that banks adopt active balance sheet policies (Onyekwelu et al., 2018).

Bibow (2005) highlights Keynes description of liquidity preference theory as "the transaction of current business and its use as a store of wealth." Elgar (1999) posits that liquidity preference is necessitated by the need finance expenditure, speculation on interest rate path, or due to uncertainty about the future. These motives became known as transactions-, speculative and precautionary motives to demand money.

2.22 Trade-off Theory

According to the theory, a tradeoff exists between liquidity and profitability in all organizations. In a bank's context, this means that the two objectives to achieve good profits and maintain liquidity cannot be followed simultaneously without one affecting the other (Akinwumi et al., 2017). This means that banks should aim at maintaining an optimum level of liquidity to balance between the benefit of holding cash in the form of saving transaction cost to raise funds and the cost of holding cash in the form of tax disadvantage and liquidity premium (Edem, 2017). The theory is relevant for the study as it examines the relationship between liquidity and performance.

2.23 Agency Theory

The agency problem was first highlighted by Adam Smith in the 18th century and explored by Ross (1973), a detailed description of the theory was presented by Fama in 1980. According to Ogboru (2019), agency theory describes the relationship between principals, such as shareholders, and agents, such as management. The agency relationship is described by Fama (1980) as a contract in which one or more persons (the principals) appoint another person (the agent) to perform a specific service on their behalf, which involves delegating some decision-making authority to the agent. The separation of ownership and control creates

an innate conflict between shareholders (principals) and management (agents) (Ogboru, 2019). This conflict of interest can also be exacerbated by ineffective monitoring of management by shareholders, as shareholders are dispersed and therefore unable or have no incentive to exercise the necessary monitoring functions. This results in the managers of the firm pursuing their own objectives at the expense of the shareholders (agency cost) (Hart, 1995). Agency costs can be defined as the loss of value to shareholders that results from the divergence of interests between shareholders and management. Thus, there are three aspects of agency costs, namely: monitoring costs, residual losses, and retention costs.

Monitoring costs are the costs incurred by shareholders to monitor management's actions and performance to ensure that management is acting in the best interests of shareholders. An example of this is the cost of auditing financial statements prepared by a company's management. Residual loss. These are losses incurred when management makes decisions that are not in the best interest of shareholders, but in the best interest of management itself.

3.0 Theories of Economic Growth

Economic growth is closely linked to the intricacies of the financial system. A well developed and efficient financial system helps in allocating financial resources to the best uses in the real sector, thereby promoting economic growth. As the real sector grows, the demand for financing increases and in this way the financial sector grows in tandem with the economy, signifying a two way causal relationship between finance and growth. In developed countries, financing generally flows both from the banking system and the capital markets, while in most developing and transition economies the capital markets lag behind, which shifts the burden of financing to the banking system.

There are numerous growth models in literature. However, there is no consensus as to which strategy will achieve the best success. The achievement of sustained growth requires minimum levels of skills and literacy on the part of the population. Some of these existing growth models are Two Gap Model, Marxian Theory, Schumpeterian Theory, and Harrods Domar Model, Neoclassical Model of

Growth, and Endogenous Growth Theory. The growth models relevant to this are Neodel of Growth, and Endogenous Growth Theory, since these growth models explain the situation in developing economies such as Nigeria. The neoclassical model of growth was first devised by Robert Solow. The model believes that a sustained increase in capital investment increases the growth rate only temporarily.

3.1 Harrod-Domar Model

The model was developed by Roy Harrod (1939) and Evsy Domar (1946) to explain economic growth in terms of level of savings and capital productivity. It was based on the assumption that the impact of money supply in an economy depends on its ability to influence interest rate on loan (that is loan to deposit ratio). The rate of interest in turn influences the rate of investment which in turn influences national income. The model postulates that changes in national income depend linearly on change in capital stock or investment. The assumption is that investment is a function of savings.

According to Akujuobi and Chima (2012), the Harrod-Domar Model suggests that customers' deposit provide the finance, which are loaned for investment activities. Therefore, this model

concludes that economic growth will proceed at the rate which society can mobilize savings coupled with the productivity of investment (Levine, 1997; Masha, et al, 2004). Hence, the need for allocation of credit for investment in an economy desiring economic growth is highly projected.

3.2 Solow–Swan Model

Restricted concept of capital was used by Solow and Swan who, in his famous 1956 article, however purged flow consistency from growth theory by assuming neoclassical general equilibrium: whatever the flow of monetary investment expenditure, full employment would be maintained as wages and interest rates and employment and profits would change, miraculously, just enough to assure ‘knife edge’ full employment (see also Fazzari et al., 2012). This decoupling of investments from aggregate demand was a clear scientific retrogression as it made a lot of questions difficult to pose. And while Harrod and Domar chose to use a limited concept of capital and to discard unproduced assets, the general equilibrium view of Solow forced him to do this as wages and profits would only change with the right magnitude when no rent incomes would exist. He therefore had to state: “The community’s stock of capital takes the form of an accumulation of the composite commodity” and “there is no scarce non augmentable resource like land” (Solow, 1956). Aside, the very idea behind distinguishing ‘capital’ from consumer and intermediate goods is of course the fact that the composition, use, span of life and ‘span of production’ of fixed depreciable assets is not equal to the composition, use or span of life of either final consumption goods or intermediate inputs.

4.0 Theories of Profitability

There are various theories with regard to Liquidity management and profitability:

4.1 Profit Maximization Theory

Under this theory, commercial banks are viewed as rational economic units whose goal is to maximize profit. They hold portfolio of assets and given the characteristics and distributions of liabilities, they are assumed to attempt to structure their portfolio of assets in such a way as to yield the greatest return subject to these constraints. In the profit maximization theory of the bank portfolio management, it is assumed that given such things as present and expected levels of interest rates, loan demands, cash demands, the level of discount rate, rate of returns on the various assets, among others, the banks have some desired distribution of assets in their portfolio. If the existing distribution of assets held by the banks is not the distribution desired, it is expected that they will attempt to adjust the portfolio of assets by increasing their holdings of some assets and decreasing holdings of other assets (Oluyemi, 1995).

4.2 Clark Theory of Profitability

Clark begins his theory with an analysis of a profit-less economy and taking into account its key futures. The profit less economy is compared with a profit-generating economies and significant differences were identified to indicate the causes of profit. This method was adopted

by Schumpeter and Knight. The profit-less economy is referring to as ‘static state’, in which all factors are constant and not subject to change, the market is assumed to be perfect; hence the absence of monopoly and entrepreneurial efforts are rewarded according to management wage levels. There is perfect mobility and flow of all economic units in a frictionless environment; in short all impediments to perfect competition are dissolved. “The society acts and lives, but does so in a changeless manner” (Siddiqi, 1971). Any change in these factors will produce a tremor in the system but the economy will adjust and settle at new equilibriums. So changes in population and capital will result in corresponding fluctuations in wages and interest rates, the economy will absorb these changes and then settle back to a static state.

4.3 Schumpeter Theory of Profitability

Following on the method of Clark, Schumpeter developed the ‘circular flow model’ in which a profit-less economy is described where perfect competition extinguishes surpluses of monopoly and friction. The analyses of the ‘circular flow’ economy differ in detail from the ‘static state’ model of Clark. So departures between an ideally competitive environment and actual economies yield the causes of profit. Schumpeter, however, is far more selective in his approach than Clark. Schumpeter identifies the single notion of innovation as paramount, so that changes based upon innovation are the cause of profit. Gradual changes in population and capital would easily be anticipated by the market and hence present no opportunity for the entrepreneur. Schumpeter goes on to describe five areas in which innovation will lead to profit generation (Siddiqi, 1971): Innovations in commodities, either by introducing new products or improving old ones; Innovations in production techniques; Finding new and fertile markets; Locating new resources and raw materials and Changes in industrial organization.

The entrepreneur is for Schumpeter an innovator, who by virtue of his innovation is able to break from the competition, acquire a transitory monopoly in which he can accrue profits until his competitors catch up, but, before they do so, he is able to move on to further innovation in new fields. Schumpeter did not see the entrepreneur’s reward as a surplus value but rather as a functional reward linked to his innovative ability (Siddiqi, 1971).

4.4 Income Theory of Money

Thomas Tooke (1774-1858) is the economist whom we might want to call the father of the income theory of money. The reason is that he was the first to consistently link nominal prices to nominal incomes. It is with him, too, that we first find, side by side, both the idea of prices formed by nominal streams meeting the real supplies of goods, and the concept of endogenous money. It is by right that Tooke’s monetary theory received some fresh attention from economists recently (cf. e.g. Skaggs 2003, Smith 2001, 2002). The application of the ideas of the income theory of money is more complicated to the monetary system which is less flexible and somewhat intertwined with some real assets and its market too. This is precisely the case of the gold standard and its various modifications. Tooke is well aware of the difference in the operation of the basic theoretical principles within the gold standard economy as compared to the paper standard one, and he treats these separately.

Tooke argues that it is upon the amount of incomes not on the quantity of money which the nominal volume of demand depends on. And with paper money in place an obvious way how to increase nominal incomes is either to directly hand over newly issued paper notes to civil servants as salaries, or to achieve the same indirectly via various government purchases (Tooke,1844). With flexible monetary system (that is with endogenous money), however, whatever forces set up the level of nominal incomes, prices and money will simply adjust to that. John Stuart Mill (1806-1873) was the dominant figure of the latter English Classical School of Political Economy. Though the school is known to be occupied predominantly with the real rather than with the monetary phenomena, Mill's monetary achievements are far from negligible. In particular, Mill explains that it is credit that introduces flexibility into the monetary system and enables the overall level of prices to shift.

4.5 Anticipated Income Theory

Anticipated income theory was propounded by Herbert Victor Prochanow in 1944 at the end of World War II as a result of the fact that the compositions of the earnings assets of commercial banks began to change as resources shifted from the government to the private sector. The spectacular rise in the loan demand of the immediate postwar years provided commercial banks with strong incentives to expand their loan portfolios and hence increase bank earnings. After the postwar, commercial banks began to make loans that were of longer maturity, covered a much wider variety of borrowers and extended to many more purposes than originally envisaged. The theory of anticipated income was based on the practice of term lending by U.S. commercial banks. According to this theory, the bank plans to repay the term loan from the borrower's anticipated income, regardless of the nature and character of the borrower's business. A term loan has a maturity of more than one year and not more than five years. It is granted against the pledge of machinery, stock and even real estate. When granting this loan, the bank restricts the borrower's financial activities. The bank takes into account not only the collateral, but also the expected income of the borrower at the time of granting the loan. Thus, a loan is repaid by the bank from the borrower's future income in installments, rather than in a lump sum when the loan matures.

This holds that liquidation can be planned, if scheduled loan repayments are based on the future income of the borrower. This does not deny, however, the applicability of the commercial self-liquidating and, shiftability theories, it emphasizes desirability of relating loan repayment to income rather than relying heavily on collateral. Also, it recognizes the influence the maturity structure of the loan and investment portfolios have on bank liquidity. The major shortcoming stems from the difficulty in accurately predating what the future income of the borrower will be. Out of a comprehensive study in 1949, Prochnow formulated a new loan theory which he called "the Anticipated Income Theory". According to Afriyie & Akotey, (2011), they found in their study that: In every instance, regardless of the nature and character of the borrower's business, the bank planned liquidation of term loans from anticipated earnings of the borrower. Liquidation is not by sales of assets of the borrower as in commercial or traditional theory of liquidity or by shifting the term loan to some other lenders as in the shiftability theory of liquidity but by anticipating income of the borrower. In effect, this theory assumes that banks should make loans on the basis of the anticipated income of the borrower and not on his present value.

4.6 Pro-Concentration Theory

The supporters of increased concentration of banks contend that bank mergers and acquisitions drive up economies of scale and synergy consequently bringing about increased effectiveness and efficiency of the system (Afolabi, 2011; Asogwa, 2003). To support this, Agbaeze and Onwuka (2018) analysed 122 U.S. banking organizations and found an indirect connection between size and the unpredictability of bank returns. Be that as it may, these discoveries are dependent on circumstances in which the consolidations were intentional, excluding the consolidation cases of 2004 in Nigeria. Advocates of this theory contend that a concentrated system of bigger banks is better as they can diversify and are less prone to shocks than a system of many small fragile banks and is easier to monitor (Asogwa, 2003; Agbaeze & Onwuka, 2018).

4.7 Portfolio Theory

The portfolio theory approach is the most relevant and plays an important role in bank performance studies. According to the Portfolio balance model of asset diversification, the optimum holding of each asset in a wealth holder's portfolio is a function of policy decisions determined by a number of factors such as the vector of rates of return on all assets held in the portfolio, a vector of risks associated with the ownership of each financial asset and the size of the portfolio. It implies portfolio diversification and the desired portfolio composition of commercial banks are results of decisions taken by the bank management. Furthermore, the ability to obtain maximum profits depends on the feasible set of assets and liabilities determined by the management and the unit costs incurred by the bank for producing each component of assets. Although asset-liability management is not a new planning tool, it has evolved from the simple idea of maturity-matching of asset and liabilities of various time horizons into a framework that includes sophisticated concepts.

4.8 Asset Liability Management Theory (ALM)

Vaidyanathan (1999) defined ALM as the process by which an institution manages its Statement of Financial Position in order to allow for alternative interest rate and liquidity states. It is the practice of managing risks that arise due to mismatches between the assets and liabilities of the bank. Asset-liability management is an approach that provides institutions with mechanisms that makes such risk acceptable. The short term objective of ALM in a commercial bank is to ensure liquidity while protecting the earnings and the long term goal is to maximise the economic value of the bank i.e. "the present value of commercial bank's expected net cash flows, defined as the expected cash flows on assets minus the expected cash flows on liabilities plus the expected net cash flows on off balance sheet (OBS) positions." (Basel Committee on Banking Supervision, 2006).

Other objectives of ALM are maximising profitability, ensuring structural liquidity, minimising of capital and ensuring robustness in market risk management. ALM is based on 3 basic pillars: Asset-liability Management (ALM) Process: "Given the central role of market and credit risk in its core business, a financial institution's success requires that it be able to identify, assess, monitor and manage these risks in a sound and sophisticated way". ALM is a

systematic approach that attempts to provide a degree of protection to the risk arising out of the asset/liability mismatch.

ALM Organisation: Satchidananda & Prahlad (2006) asserted that the Board of Directors would have the overall responsibility for ALM in any organization and should lay down the organisation's philosophy in relation to this. However, the Asset-liability Committee (ALCO) is responsible for deciding on the business strategies consistent with the laid down policies and for implementing them. Typically, ALCO consists of the senior management, including the Chief Executive Officer.

Asset liability management allows a firm to maintain a healthy balance of liabilities and assets. This reduces investment risk and thereby increases profitability [3]. Asset liability management serves as guidance for the company's management in making investment decisions. This is because the firm is able to assign adequate funds for income as a percentage of using best practices in liquidity risk management.

The asset liability management theory, developed in the 1960s. This theory has been upheld by most banks in developed countries. According to the liability management theory, a bank no longer needs to observe traditional standards with respect to self-liquidating loans and liquidity reserve assets, since such loans can be acquired in money market whenever a bank needs liquidity. In this way a bank can meet its liquidity needs by creating additional liabilities.

This theory holds that it is unnecessary to observe traditional standards since reserve money can be borrowed or obtained in the money market using short term debt instruments whenever a bank experiences reserve deficiency. According to Shafiq & Nasr, (2010), it does not mean that the bank manages only its liabilities and passive with respect to its assets.

Rather, the theory continues to recognize that the asset structure of the bank has a prominent role to play in providing the bank with liquidity. But the theory takes a one dimensional approach to liquidity and argues that the bank can also use its liabilities for liquidity purposes. A bank wants liquidity for deposit withdrawal purposes and also to meet the reasonable loan requests

of its customers. Not only are bank loans profitable but a bank that won't or can't make loans to its depositors when they need funds is not likely to keep those depositors for very long.

4.9 Neo-Classical Theory of Interest Rate

The neo-classical or the loanable fund theory of interest was first propounded by the Swedish economist Wicksell and later developed and supported by several leading American and Swedish economists including professor Robertson, Bertil Ohlin, Lindhal and Myrdal. However, the theory in its present form is associated with Professor Robertson. This theory expresses the rate of interest as a function of the demand and supply of loanable funds. This theory is an improvement over the old classical theory of interest. Actually, bank loans represent important funds, which are available on payment of interest by the borrower. Likewise, loaned wealth can also become available for purpose of investment. Dis-invested funds available to the borrowers. Since loanable funds theory is more comprehensive, it is often referred to as

real as well as monetary theory of interest. This theory is just the one of the two general approaches that have been followed in developing the modern monetary theory of the rate of interest. The loanable funds theory provides a link between deposit money bank credits and industrial output, because the theory buttresses that borrowing by business for investment is determined by the cost of credit (interest rate). In line with the loan pricing theory, interest rate set by banks as cost of credit facility to customers should be commensurate with the risk of the borrower. This will place the financial institutions in a better position to perform its traditional function of financial intermediation. The attendant benefit of this is increased credits disbursement to all the productive sectors of the economy. In emerging economies, the manufacturing sector suffers the paucity of capital. Thus, the free flow of credits to the sector will tend to enhance its performance.

4.10 Classical Theory of Political Economy and Development

The famous scholars projecting this theory are Adam Smith, David Ricardo, and Thomas Malthus among others. The theory believes that the banking sector plays an important role in channeling finance and investment to the productive agents like agriculture and industry within the economy and therefore acts as a catalyst of economic growth and development. The main

implication of this theory, therefore, is that banking policies such as credit schemes and financial programmes which embrace openness and competition will promote economic growth and development. The classical theory stipulates that the rate of interest is determined by the demand and supply of capital or by the intersection of the investment demand schedule and the supply/saving schedule and the neo-classical theory of production emphasizes that resource must be available and efficiency used in order to achieve optimum production level. This links directly to the goal of the Deposit Money Banks and agricultural output because loans given to farmers are meant for repayment. However, it will be impossible for the Deposit Money Banks to recover such loans and ensuring that these resources are efficiently used in order to achieve optimum production.

4.11 Pecking Order Theory (POT)/Hypothesis Of Lending

The pecking order theory (POT)/hypothesis of Lending as its framework of analysis. The foundation of this theory or framework of analysis is that only the firm manager is aware of the true value of the firm and that the market is unaware of the true distribution of the firm's income. The theory therefore holds that these prevail, firms are likely to fund themselves primarily internal sources such as retained earnings, and secondarily from bank credits.

Further, the theory holds that firms can only succeed in this state through the mixture of debt and equity, which is the cumulative result of hierarchical financing decisions over time. Although SMEs do not issue equity they incur debt if their retained earnings are insufficient to fund them. This comes in a hierarchical fashion with internal funds first, external debt and external equity as a last resort (Myers, 1984). These credit options are directly or indirectly linked with commercial banking operations. Thus, commercial banks remain the known formal source of raising credits or loans for enterprises (Agumagu, 2006).

4.12 Financial Repression Hypothesis

Financial repression theory has its origins in the work of McKinnon (1973) and Shaw (1973). McKinnon and Shaw argue that numerous countries, including developed nations, but particularly those that are in the process of developing, have historically restricted competition in the financial sector through government intervention and regulation. According to their argument, a repressed financial sector discourages both saving and investment because the rates of return are lower than what could be obtained in a competitive market. In such a system, financial intermediaries do not function at their full capacity and fail to efficiently channel savings into investment, thereby impeding the development of the overall economic system.

McKinnon (1973) and Shaw (1973), for the first time, introduced the term 'financial repression', to describe government control and interventionist policies in the financial markets. Financial repression can include: loaning to the governments, restricting interest rate, and setting up nearer ties among government and banks. McKinnon and Rostow (1974) and Shaw (1973) believe that the low and negative real interest rate occurs in order to lower the nominal interest rate or rising inflation. Thus, the negative real interest rate in such a circumstance prevents the formation of savings and deposits, and negatively affects capital accumulation and revenue. Consequently, if investments are made in businesses, economic growth is expected to be below its potential rate.

Financial repression is not effective from a responsible economic standpoint since it crowds out other successful investments from banks. Financial repression is an expensive way to preserve the bank's credibility and save them from defaulting. When banks expand government debt, defaults may lead to the probability of incurring a loss. If decision makers reduce net bank equity, aggregate investment forcing banks to keep debt endogenously. Although financial repression policy might increase the probability of default risk, it can help governments to issue more debt in a credible manner. Nevertheless, this strategy is often expensive because it may set back the economic investment. Financial repression is more efficient when governments decide to raise extremely large quantities of domestic debt, such as during wartime or after unprecedented international lending stoppages (Chari et al., 2020).

The first systematic analyses of financial markets in developing countries to take seriously the special characteristics of financial institutions in such countries were by McKinnon (1973) and Shaw (1973). McKinnon-Shaw has provided the intellectual underpinnings for a recent movement toward financial liberalisation in many parts of the third world. According to McKinnon (1973), the defining feature of underdevelopment is fragmentation – i.e. a situation in which agents face different prices and do not have access to the same technology. This fragmentation has largely been the product of government policy designed to favour certain activities or certain classes of agents at the expense of others. In turn, intervention has often been justified by the pursuit of social goals that are inhibited by the improper functioning of capital markets. This leads to the problem of inadequacy of financial intermediation. Because there is no one to intermediate between savers and those with profitable investment opportunities, self financing is perceived by McKinnon to be the rule in many developing countries. For reasons that essentially amount to the presence of uncertainty, wealth holders in developing countries are assumed by McKinnon to resist holding financial assets other than money. Such financial intermediation as does exist therefore is conducted by the banking system. However, the

banking system performs inefficiently as a financial intermediary. The reason This theory explains the interplay between savings, interest rates and investment and how their interplay affects economic activities. This interplay is important given the role financial intermediaries play in boosting output in the economy. The theory therefore gives clear focus to the objective of this research as this interplay may affect credit to agriculture in Nigeria.

Accounting profitability determinants Several studies like that of Kosmidou et al. (2007) and Van- Horen (2007) suggested that return on assets (ROA) is the best measure of profitability over time since assets have a direct impact on both income and expenses. Nevertheless, the ROE can be a critical measure of profit in many cases. Our sample is an unbalanced panel and the models illustrating ROA and ROE are estimated using a generalized least square panel estimator because the number of years of the data varies by bank.

4.13 Asymmetric Information Theory

In a financial market, asymmetric information theory occurs when a borrower who receives a loan facility from a bank has greater knowledge of the anticipated risks and rewards related to the investment project for which the financing was requested (Edwards & Turnbull, 1994). There's a chance the lender doesn't know enough about the borrower. According to this theory, whenever customers' loan requests are being processed, banks encounter the twin issues of moral hazard (watching borrower's behavior) and adverse selection (making mistakes in the lending decision).

4.14 Signaling Hypothesis

Olokoyo (2011) and Lawal et al. (2017) both put forth the theory that banks require collateral from trustworthy consumers who request the loan facility. This is essential to safeguard customers' savings and to let banks know that they (reputable businesses) are among the less hazardous types of clients. Additionally, banks do charge high interest rates to offset the high risk of the customers' request, and high-risk customers are required to put up a lot of collateral for a lending facility.

5.0 Conclusion and Recommendations

The paper reviewed Theoretical framework, neo-classical economics and modern finance theory: Commercial Loan Theory, Credit Risk Theory, Theory of Bank-Based Financial System, Debt intermediary hypothesis, Preference-Adverse Selection Theory, Financial Intermediation Theory, Supply leading theory, Loan Pricing Theory, Shiftability Theory Of Liquidity, Agency Theory, Theories of Economic Growth, Harrod–Domar Model, Solow–Swan Model, Theories of liquidity management, Liability/Liquidity Management Theory, Liquidity Preference Theory, theories of profitability, Profit Maximization Theory, Clark Theory of Profitability, Schumpeter Theory of Profitability, Income Theory of Money, Anticipated Income Theory, Portfolio Theory, Asset Liability Management Theory, Neo-Classical Theory of Interest Rate, Classical theory of political economy and development, Pecking Order Theory (POT)/Hypothesis Of Lending, Financial Repression Hypothesis, Asymmetric Information Theory, Pro-Concentration Theory, Trade-off Theory and Signaling Hypothesis as it relates with Banks' credits, profitability of banks. Many economists have stressed that banks as a major component of financial system, provide linkages for the different sectors in order to ensure the attainment of the macroeconomic objective of government. A bank is a financial intermediary that accepts deposit from customers and channels the amount mobilized to borrowers in the form of loans

and advances. Bank credits represent the amount of loan and advances to individuals and organizations from banking system. The likes of McKinnon (1973) and Shaw (1973) noted that the efficiency of financial intermediation is affected by regulatory regime at a point in time. Deregulation involves a regulatory framework that permits the development of competitive system where consumers are served at reasonable cost. In other words, it is believed that liberalization allows for a market driven intermediation which leads to competition and efficient allocation of credit to sectors that are better able to use it productively. In conclusion, anticipated income theory serves as a major theoretical underpinning of banks' credit and profitability cum liquidity management policies and equally analyzes borrowers' credit worthiness. The theory also provides the banks with the criteria for evaluating the potentials of a borrower to successful repayment of loan on time which ultimately affects the interest income which can be used to influence the liquidity position of a bank. Moreover, the theory holds the view that if credit were adequately managed, interest income will be influenced, which will affect the investment opportunities and ultimately increase the liquidity position of the bank.

References

- Afolabi, J. (2011). Mergers and acquisitions in the Nigerian banking system: Issues and challenges. *Nigeria Deposit Insurance Corporation*, 7(10), 1–21.
- Afriyie, H. & Akotey, J. (2011). Credit risk management and profitability of selected rural banks in Ghana. *Catholic University College of Ghana*, 1-18
- Agbaeze, E. K., & Onwuka, I. O. (2018). Basel III and abolition of universal banking model—implication for Nigerian banks. *Journal of Economics and Finance*, 2(5), 1–15.
- Agu, C. C. (1988). Nigerian banking structure and performance: the banking system's contribution to economic development. African-Fep Publishers.
- Agumagu, A. C. (2006). *Finance for industry and commerce: The business of banking*. Lectures and proceedings at the 26th international banking summer School. Oxford Honourary Presidential Advisory Council on Investment in Nigeria.
- Akinwumi, I. A., Essien, J. M., & Adegboyega, R. (2017). Liquidity management and banks performance in Nigeria. *Business Management and Economics*, 5(6), 88-98.
- Akujuobi, A. B., & Chima, C. C. (2012). The production sector credit and economic development of Nigeria, a cointegration analysis. *International Journal of Event Management Research*, 2(11), 1-17.
- Asogwa, R. C. (2003). Liberalization, Consolidation and Market Structure in Nigerian Banking, A Paper presented at the *African Economic Research Consortium (AERC)*, Nairobi.
- Basel Committee, (2006). *International Convergence of Capital Measurement and Capital Standards: A Revised Framework -Comprehensive Version*. Basel Committee on Banking Supervision.
- Basel committee on Bank supervision, (2010). Basel III-International framework for liquidity risk measurement, standards and monitoring. Bank for International Settlement.

- Bibow, J. (2005). Liquidity preference theory revisited. *The Levy Economics Institute. Working paper No. 427.*
- Chari, V. V., DAVIS, A. & Kehoe, P. J. (2020). On the optimality of financial repression. *Journal of Political Economy*, 128(2), 710-739.
- Devi, P., & Pant, A. (2018). Impact of NPA on profitability performance of select public and private sector banks in India. *International Journal of Management, IT & Engineering*, 8(7), 7-19.
- Diamond, W., & Dybvig, P. (1983). Bank runs, deposit insurance, and liquidity. *Journal of Political Economy*, 91(3), 401-19.
- Dodds, J. C. (1982). The term structure of interest rates: A survey of the theories and empirical evidence. *Journal of Managerial Finance*, 8(2), 22-31.
- Domar, E. (1946). Capital expansion, rate of growth, and employment. *Econometrica*, 14(2), 137-147.
- Edem, D. B. (2017). Liquidity management and performance of deposit money banks in Nigeria (1986–2011): An investigation. *International Journal of Economics, Finance and Management Sciences*, 5(3), 146-161.
- Elgar, E. (1999). Full employment and price stability in a global economy. *Cheltenham Publication*, 3(14), 47-52.
- Fama, E. F. 1980. Agency problems and the theory of the firm. *The Journal of Political Economy*, 88(2), 288-307.
- Fama, E. F. 1980. Banking in the theory of finance. *Journal of Monetary Economics*, 6, 39-57.
- Fazzari, S. M., Ferri, P. E., Greenberg, E. C., & Varlato, A. M. (2013). Aggregate demand, instability, and growth. *Review of Keynesian Economics*, 1-1.
- Goldsmith, R. (1969). Financial Structure and Development. *Econometrica*, 80(318), 365-375.
- Greenwood, J., & Jovanovic, B. (1990). Financial development, growth, and the distribution of income. *Journal of Political Economy*, 98(5), 1076-1107.
- Gurley, J., & Shaw, E. (1967). Financial structure and economic development. *Economic Development and Cultural Change*, 15(3), 257-268.
- Harrod, R. F. (1939). An essay in dynamic theory. *The Economic Journal*, 49, 119-133.
- Hart, O. (1995). Corporate governance: Some theory and implications. *The Economic Journal*, 105(430), 678-689.
- Hosna, A. & Manzura, B. (2009). *Credit Risk Management and Profitability in Commercial Banks in Sweden*. University of Gothenburg, Graduate School of Business, Economics and Law, Master of Science in Accounting.
- International Monetary Fund & World Bank (2013). *Financial Sector Assessment Program: Nigeria –Basel Core Principles for Effective Banking Supervision*. World Bank, Washington, DC.
- Kargi, H. S. (2011). *Credit Risk and the Performance of Nigerian Banks*. Ahmadu Bello University, Zaria.
- Keynes, J. M. (1936), *The general theory of employment, interest and money*. Macmillan Publishers.
- Kosmidou, K., Pasiouras, F., & Tsaklanganos, A. (2007). Domestic and multinational determinants of foreign bank profits: The Case of Greek Banks operating abroad. *Journal of Multinational Financial Management*, 17(1), 1–15.

- Lawal, A. A., Abiola, B. I., & Ikhu-Omoregbe, S. (2017). Effect of credit risk management on performance of listed Nigerian deposit money banks. *ICAN Journal of Accounting & Finance*, 6(1), 167-195.
- Levine, R. (1997). Financial development and economic growth: views and agenda. *Journal of Economic Literature*, 35, 688-726.
- Marx, K. (1867). *Capital Vol. I*. New York: International Publisher, 1977.
- Marx, K. (1894) *Capital Vol. III*. New York: International Publisher, 1977.
- Masha, S. N., Essien, M. L., Musa, D. B., & Abeng, M. O. (2004). Theoretical issues in financial intermediation, financial markets, macroeconomic management and monetary policy in Nigeria.
- McKinnon, R. I. & Rostow, W. W. (1974). Money and capital in economic development. *The American Political Science Review*, 68(1), 1822-1842.
- McKinnon, R. (1973). *Money and capital in economic development*. Washington: The Brookings Institute.
- Mill, J. S. (1965). *Principles of Political Economy with some of their Applications to Social Philosophy*. London: Routledge & Kegan Paul.
- Mugenyah, L. (2015). *Determinants of liquidity risk of commercial banks in Kenya*. Unpublished Masters Thesis. University of Nairobi.
- Myers, S. C. (1984). Capital structure puzzle. *Journal of Finance*, 39, 572-592.
- Nazifi, A. D., Magaji, S., & Amase, J. (2022). Macroeconomic impact of oil price Shocks on government expenditure and economic growth in Nigeria. *SDM Journal of Management*, 13(Special), 97-112.
- Nnanna, N., Englama, E., & Odoko, O. A. (2004). *Financial Market in Nigeria*. A Central Bank of Nigeria Publication.
- Nwankwo, G. O. (1991). *Bank Management Principles and Practices*. Lagos: Malthouse Press
- Nwankwo, G. O. (1991). *Prudential Regulations of Nigerian Banking*. Lagos: University of Lagos.
- Nwankwo, G. O. (1989). *Nigerian Financial System*. Lagos: Macmillan Publishers Ltd.
- Nwite, C. S. (2014). Determinants of financial intermediation and its implications on economic growth in Nigeria. *British Journal of Marketing Studies*, 3(9), 49-56.
- Ogbonna, S. I. & Osondu, C. K. (2015). Determinants of supply of funds to agricultural sector from formal sources in Nigeria from 1992 to 2012. *Greener Journal of Agricultural Sciences*, 5(3), 081-092.
- Ogboru, M. J. (2019). Asset quality and deposit money banks performance in Nigeria. *American International Journal of Business and Management Studies*, 1(1), 43-54.
- Okpala, K. (2013). Consolidation and business valuation of Nigeria banks: What consequences\ on liquidity level. *International Journal of Business and Social Science*, 4(12), 312-320.
- Olokoyo, F. O. (2011). Determinants of commercial banks' lending behaviour in Nigeria. *International Journal of Financial Research*, 2(2), 60-72.
- Oluyemi, S. A. (1995). Recent development in the Nigerian banking system and insured banks' asset portfolio behavior: An empirical study. *Nigerian Deposit Insurance Corporation Quarterly*, 5(4), 32-44.
- Onyekwelu, U. L., Chukwuani, V. N., & Onyeka, V. N. (2018). Effect of liquidity on financial performance of deposit money banks in Nigeria. *Journal of Economics and Sustainable Development*, 9(4), 19-28.

- Owojori, A. A., Akintoye, I. R., & Adidu, F. A. (2011). The challenge of risk management in Nigerian banks in the post consolidation era. *Journal of Accounting and Taxation*, 3(2),23-31.
- Ricardo, D. (1951). *Principles of Political Economy and Taxation*. Cambridge: Cambridge University Press.
- Ross, S. A. (1976). The arbitrage theory of capital asset pricing. *Journal of Economic Theory* 13(3),341-360.
- Sanghani, D. A. (2014). *The effect of liquidity on the financial performance of non-financial companies listed in The Nairobi securities exchange*. M.Sc. Thesis, University of Nairobi
- Satchidananda, S. S., & Prahlad, D. N. (2006). *ALM Implementation in Banks*. Singapore: Centre of Banking and Information Technology, International Institute of Information Technology.
- Schumpeter, J. (1942). *Capitalism Socialism and Democracy*. New York: Harper and Row Publishers.
- Schumpeter, J. (1954). *History of Economic Analysis*. New York: Oxford University Press.
- Shafiq, A. & Nasr, M. (2010). Risk Management Practices Followed by the Commercial Banks in Pakistan. *International Review of Business Research Papers*,6(2),308-325.
- Siddiqi, M. N. (1971). *Recent Theories of Profit*. Aligarh: Aligarh Muslim University Press.
- Skaggs, N. T. (2003). Thomas Tooke, Henry Thornton, and the Development of British Monetary Orthodoxy. *Journal of the History of Economic Thought*, 25,177-197.
- Smith, A. (1776). *The Wealth of Nations*. New York: The Modern Library, 1976.
- Smith, M. (2002). Tooke's approach to explaining prices. *The European Journal of the History of Economic Thought*,9(3), 333-358.
- Smith, M. (2001). Endogenous money, interest and prices: Tooke's monetary thought revisited. *Contributions to Political Economy*,20,31-55.
- Solow, J. L. (1987). The capital-energy complementarity debate revisited. *The American Economic Review*,77(4),605-614.
- Stiglitz, J. E. & Weiss, A. (1981). Credit rationing in markets with imperfect information. *The American Economic Review*, 71(3)1-5.
- Swan, T. W. (1956). Economic growth and capital accumulation. *Economic Record*, 32(2),334-361.
- Tobin, J. 1965. Money and Economic Growth. *Econometrica*, 33(4),671-84.
- Tooke, T. (1844). *An Inquiry into the Currency Principle*. London: Longman, Brown, Green, and Longmans.
- Van-Horen, N. (2007). Foreign banks in developing countries; origin matters. *Emerging Markets Review*, 8,81-105.
- Vaidyanathan, R., (1999). Asset-liability management: Issues and trends in Indian context. *ASCI Journal of Management*, 29(1),39-48.
- Venkati, P. (2016). Impact of Banks deposit mobilization and credit financing on capital formation. *International Research Journal of Marketing and Economics*,3(6), 67-87.
- Von-Thadden, E. (2004). Bank capital adequacy regulation under the New Basel Accord. *Journal of Financial Intermediation*, 13(2),90-95.