banking system plays a central role through its ability to create money. A key outcome of this approach to modeling the goods and financial markets is the latter amplifying the instability in the former. This result is driven by the roles of expectations of producers and providers of financial capital and the portfolio choices of households. In the financial markets, given capital constraints on banks and fulfillment of expectations, a central role has been accorded to liquidity preference of banks in shaping their portfolio choice and pricing decisions. The explicit consideration of the liquidity preference of banks is a departure from much of the extant literature that has followed Keynesô General Theory assumption of the unchanged liquidity preference of banks. The emphasis on the capital constraint is primarily on account of its dominance during the most recent stage of evolution of banking systems in the evolutionary stylization developed in this dissertation.

The cross-country survey of institutional frameworks and banking system risk-taking behavior is suggestive of a diminishing influence of regulation on such risk-taking over time, an issue that has been hotly debated during the current crisis in banking systems in developed