

Malthusian trap	Prosperity —> breeding —> basic survival
Financial systems	<ul style="list-style-type: none"> <li>• Heart and brain of economy</li> <li>• Pumps money from those who have it to those who need it</li> <li>• Projection - a promise to pay in the future</li> <li>• Vulnerable, government interference, special regulations</li> <li>• Management of risk</li> </ul>
Money	<ul style="list-style-type: none"> <li>• Many forms, varies over time</li> <li>• Value - social arrangements</li> <li>• No form —&gt; is ability to acquire</li> </ul>
Surplus units	Savers, lenders, investors. Income > spending
Deficit units	Borrowers, users of loanable funds. Income < desired expenditure
Direct financing	Deficit and surplus units deal with each other e.g bond, equity, and money markets
Indirect financing	Financial intermediary stands in between
Financial markets are differentiated according to:	<ul style="list-style-type: none"> <li>• When claim is bought/sold: primary/secondary markets</li> <li>• How and where: organised exchange/OTC</li> <li>• Maturity: short-term (MM)/long-term (capital/equity/bond)</li> <li>• Time element: spot/futures markets</li> </ul>
3 functions of money	<ol style="list-style-type: none"> <li>1. Medium of exchange</li> <li>2. Unit of account</li> <li>3. Store of value</li> </ol>
Money should be	<ul style="list-style-type: none"> <li>• Durable</li> <li>• Fungible</li> <li>• Liquid</li> <li>• Available</li> <li>• Portable</li> <li>• Reliable</li> <li>• Have confidence in</li> </ul>
7 stages of financial development (Sheila Dow)	<ol style="list-style-type: none"> <li>1. <u>Commodity money</u> - Gresham's law - bad money drives out good money</li> <li>2. <u>Fiat money</u> - paper money - legal tender</li> <li>3. <u>Fractional Reserve Banking</u> <ul style="list-style-type: none"> <li>-Swedish Riksbank 1656 - law of large numbers</li> <li>-Alexander Hamilton</li> <li>-Bretton Woods dollar standard - 1944-1973</li> </ul> </li> <li>4. <u>Fractional Banking Money and CB 'Lender of Last Resort'</u></li> <li>5. <u>Liability Management</u> -1980s - money is endogenous</li> <li>6. <u>Securitisation</u> - loans bundled</li> <li>7. <u>Market diffusion</u> - 7 major changes: <ol style="list-style-type: none"> <li>1. Marketisation of finance</li> <li>2. Great dispersion of risk</li> <li>3. Accelerated globalisation of money and finance</li> <li>4. Emergence of new players</li> <li>5. Risk transfer to household</li> <li>6. Increased complexity</li> <li>7. Increased size of financial sector</li> </ol> </li> </ol>

Alexander Hamilton	<ul style="list-style-type: none"> <li>• Born into poverty and insecurity on Caribbean Island St Kitts in about 1755</li> <li>• At 10 abandoned by father, at 12 his mother dies, aunts, unless and grandparent die, cousin given custody commits suicide —&gt; orphaned</li> <li>• Apprenticed as a bookkeeper. Sponsored to study at King's College, NY. Absorbs the 'classics'. Enlightenment writers generally</li> <li>• Caught up in the American Revolution. Becomes war hero and Washington's most trusted aide. Reads Smith on the battlefields. and writes the blueprints for the economic and financial system of US</li> <li>• After war, becomes key figure in the creation of the US Federal government and the US constitution. Wrote the Federalist papers, became the first US Secretary of the Treasury and acted effectively as Washington's PM</li> <li>• Envisioned the US as a nation of vibrant capitalism, of industry, banks, finance, innovation, striving and change. Meritocracy rather than aristocracy</li> <li>• This vision is fiercely opposed by that of a rural/planter/agricultural nation as desired by Thomas Jefferson</li> <li>• Hamilton's vision of govt is one that is limited, but was energetic in promoting the conditions for social mobility</li> <li>• Hamilton's philosophy of government: <ul style="list-style-type: none"> <li>• "Do not pretend human nature to be something that it is not; and do not attempt to suppress human nature. Rather, fashion government so as to encourage individual greed for money, power, and prestige under sturdy legal procedures that do not dictate what people should strive for, but only how they must play the game" (McDougall 2005, p285)</li> </ul> </li> <li>• Amongst the institutions created by Hamilton included the Bank of US (BUS; America's first CB), the Bank of NY, the US Mint, the US Coast Guard (because of the intro of tariffs), the US bond market, the US tariff system, much of American common law, the NY Post</li> <li>• The BUS was founded with a 20 year charter in 1791. Based on the BoE, it was established to issue the first paper currency for the USA as a whole. This would replace state issued paper currencies, and the 'continentals' that had become worthless</li> <li>• The paper currency issued by the BUS would be backed (convertible on demand) by gold and silver (just as in the BOE). Of course, this granted an additional layer of prudence with respect to the issue of paper</li> <li>• Hamilton defined the 'dollar' as issued by the BUS as being worth 24.75 grains of pure gold or 371.25 grains of pure silver (ratio of 15:1; corresponding to prices of each at the time)</li> <li>• The BUS would be privately owned - to prevent its abuse by government - but had a 'special relationship' with the government as its banker. Critically, the government accepted BUS notes as acceptable for all payments (including taxes) to it - thus further entrenching 'value' in the currency and giving it quasi 'legal tender' status <ul style="list-style-type: none"> <li>• By assigning unit as unit that taxes are to be paid - assigns value to it</li> </ul> </li> <li>• The BUS was incredibly controversial. Opposed by rural interests, the South, 'states righters'</li> <li>• Opposed also on constitutional grounds by those in favour of a narrow reading of the Constitution. Hamilton was able to argue in favour of 'implied powers...to make all laws necessary' to carry out the governments constitutionally directed functions.</li> <li>• Perhaps its only rival was the debt assumption question – which not only bound the US, but also made their debt reliable monetary instruments.</li> <li>• Hamilton created modern America, but in some ways he was an archaic and romantic figure, desiring fame (in the classical sense), but also prone to self-doubt and depression. He was killed in a duel with the Vice President of the US on 12 July, 1804.</li> </ul>
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