Banking and Finance in 3 Minutes or Less

"The real truth of the matter is, and you and I know, that a financial element in the large centers has owned the government of the U.S. since the days of Andrew Jackson."

~ Franklin D. Roosevelt in a letter to Edward M. House (President Wilson's closest aide), November 23, 1933

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2 Kinds of Money Creation

- ***Federal Reserve Notes (via Treasury Bonds)***
  - **Money starts out as a <u>bond</u>, which is a <u>debt</u>**
  - **Interest is charged to the government to create this dollar**
- ***Banks (via Fractional Reserve Lending – 90% of money creation)***
  - **Banks can <u>lend</u> $9 for every $1 they have**
    - **This ratio of 1:10 is called a <u>capital requirement</u> (see below)**
  - **Therefore, for every $1 that is created, $10 of debt is created**

What is money?

- **Money is the same thing as debt and credit**
- **Therefore, Money = Debt = Credit**

What is inflation?

- **<u>Increase</u> in the money supply (Deflation is a reduction in the money supply)**
- **Therefore, inflation is an increase of <u>money</u>, <u>debt</u>, and <u>credit</u>**

What does inflation do?

- **Inflation causes <u>depreciation</u>, which is a <u>drop</u> in the <u>value</u> of money (Deflation causes the opposite)**

What is leverage, also called risk, or exposure?

- **<u>Ratio</u> between how much is <u>owed</u> and how much <u>money</u> you have in <u>reserve</u>**
- **Therefore, an <u>increase</u> in <u>leverage</u> is an <u>increase</u> in <u>risk</u>**

What is a capital requirement?

- **Minimum amount of capital (money/assets) required to loan a certain amount of money**

The nature of banking is such that risks (losses) are socialized and rewards (profits) are privatized.

Derivatives (Bets on Bets on Bets…)

- **Commodities**
- **Corporate investments**
- **Mortgages**
- **Student loans???**

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