Topic 1 – Where did money come from? What is money? Who controls money?

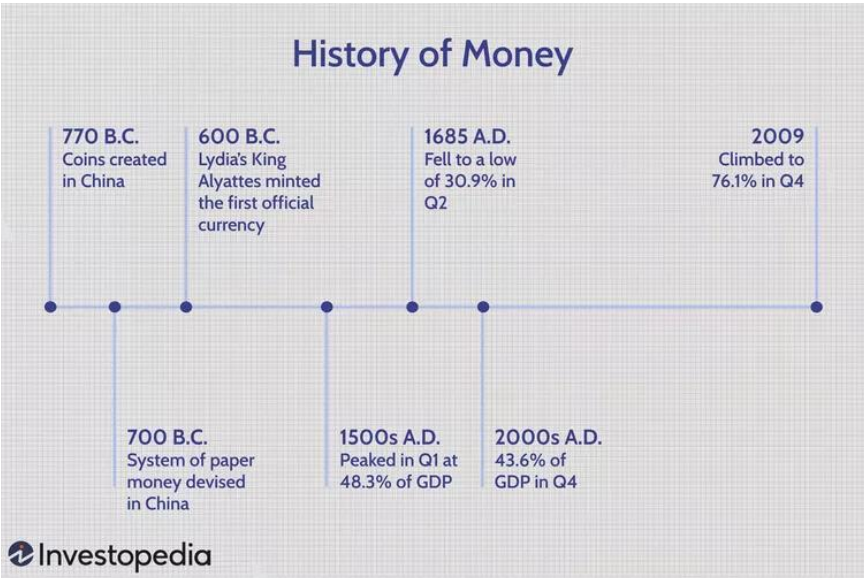
https://www.investopedia.com/articles/07/roots_of_money.asp (Source)

Money has influenced human life for more than 5,000 years, beginning with #bartering and later evolving into metal coins, including early Chinese mints and Lydia's first official currency. Paper money emerged in China during the Yuan dynasty, transforming how value was exchanged. Today, money has entered the digital era, with mobile payments and virtual currencies like #Bitcoin reshaping how transactions are made.

(#Bartering: Bartering is the direct exchange of goods or services for other goods or services, without using money as a medium of exchange, relying instead on a mutual agreement on value)

Key Takeaways

- Bartering was used as a direct trade system before money was developed over 5,000 years ago.
- The world's oldest known coin minting site was established in China around 640 BCE.
- The transition from coins to paper money began in China during the 13th century.
- Mobile payments allow money transfers and purchases using smartphones or tablets.
- Bitcoin, released in 2009, set the standard for virtual currencies with decentralized operations.



The Evolution from Bartering Systems to Early Currency

Money has been part of human history for at least the past 5,000 years in some form or another. Before that time, historians generally agree that a system of bartering was likely used. Bartering is a direct trade of goods and services.

For example, a farmer may exchange a bushel of wheat for a pair of shoes from a shoemaker. However, these arrangements take time.

If you exchange an axe as part of an agreement in which the other party is supposed to kill a woolly mammoth, you have to find someone who thinks the tool is a fair trade for having to face down the 12-foot tusks of a mammoth. If this doesn't work, you would have to alter the deal until someone agrees to the terms.

A type of currency slowly developed over the centuries that involved easily traded items like animal skins, salt, and weapons. These traded goods served as the medium of exchange even though the value of each of these items was still negotiable in many cases. This system of trading spread across the world and still survives today in some parts of the globe.

One of the greatest achievements of the introduction of money was the increased speed at which business, whether it involved mammoth slaying or monument-building, could be done.

In early August 2021, Chinese archaeologists with the State University of Zhengzhou announced the discovery of the world’s oldest known, securely dated, coin minting site in Guanzhuang in Henan Province, China. A mint is a facility where currency is created. Sometime around 640 BCE, this facility began striking spade coins, one of the first standardized forms of metal coinage.

Introduction of the First Officially Minted Currency

Meanwhile, farther west during this era, in 600 BCE, metal coinage was invented when Lydia's King Alyattes minted what is believed to be the first official currency, the Lydian stater.

The coins were made from electrum, a mixture of silver and gold that occurs naturally, and the coins were stamped with images that acted as denominations.

Lydia's currency helped the country increase both its internal and external trading systems, making it one of the richest empires in Asia Minor. Today, when someone says, "as rich as Croesus," they are referring to the last Lydian king who minted the first gold coin.

The Shift from Coins to Paper Money: A New Era

During 1260 CE, the Yuan dynasty of China moved from coins to paper money. By the time Marco Polo, a Venetian merchant, explorer, and writer who traveled through Asia along the Silk Road, visited China in approximately 1271 CE, the emperor of China had a good handle on both the money supply and its various denominations.

In fact, in the place where modern American bills say, "In God We Trust," the Chinese inscription at that time warned: "Those who are counterfeiting will be beheaded."

Parts of Europe still used metal coins as their sole form of currency until the 16th century. Colonial acquisitions of new territories via European conquest provided new sources of precious metals and enabled European nations to keep minting a greater quantity of coins.

But banks eventually started using paper banknotes for depositors and borrowers to carry around in place of metal coins. These notes could be taken to the bank at any time and exchanged for their face value in metal, usually silver or gold coins.

This paper money could be used to buy goods and services. In this way, it operated much like currency does today in the modern world. However, it was issued by banks and private institutions rather than the government, which is now responsible for issuing currency in most countries.

-Important-

<u>The gold standard was established in the 1870s. Under this rule, currency printing was permitted based on the amount of gold a country had in its reserves.</u>

<u>The first paper currency issued by European governments was actually issued by their colonial governments in North America. Because shipments between Europe and the North American colonies took a long time, colonies often ran out of cash.</u>

<u>Instead of going back to a barter system, the colonial governments issued IOUs that traded as currency. The first instance was in Canada (then a French colony) in 1685, when soldiers were issued playing cards denominated and signed by the governor to use as cash instead of coins from France.</u>

The Rise of Currency Wars and Their Impact

The shift to paper money in Europe increased the amount of international trade that could occur. Banks and the ruling classes started buying currencies from other nations and created the first currency market.

The stability of a particular monarchy or government affected the value of the country's currency, and thus, that country's ability to trade on an increasingly international currency market.

The competition between countries often led to currency wars, where competing countries would try to change the value of the competitor's currency by driving it up and making the enemy's goods too expensive, by driving it down and reducing the enemy's buying power (and ability to pay for a war), or by eliminating the currency completely.

The Rise of Mobile Payments: Convenience in the Modern Era

The 21st century gave rise to a novel form of payment activated with the touch of your finger. Mobile payments refer to money used to pay for goods and services. They can also be used to transfer money to another individual, such as a family member or friend. This can all be done using a portable electronic device, such as a smartphone or tablet device.

This form of payment first came to prominence in Asia and Europe before moving over to North America. From payments via text message, the technology evolved to allow checks to be deposited using the camera app on smart devices.

Mobile payment services like Apple Pay are vying for retailers to accept their platforms for point-of-sale payments. There are also apps dedicated to this method of payment, including Venmo and PayPal.

Understanding Virtual Currencies: Bitcoin and Beyond

Virtual currencies are only available in electronic form. As digital representations of money, this type of currency is stored and traded using computer applications or specially designated software. The appeal of virtual currency is that it offers the promise of lower transaction fees than traditional online payment mechanisms do and is operated by decentralized authorities, unlike government-issued currencies.

Bitcoin quickly became the standard for virtual currencies. It was released in 2009 by the pseudonymous Satoshi Nakamoto.

Keep in mind, though, that virtual currencies like Bitcoin have no physical coinage because they are traded on exchanges.

Although Bitcoin remains the most popular and most expensive one, other virtual currencies have hit the market. They include Ethereum, XRP, and Dogecoin.

How Long Has Money Been Around, and What Were the First Forms of Value Exchange?

Money has been part of human history for at least the past 5,000 years in some form or another. Historians generally agree that a system of bartering was likely used before this time. Bartering involves the direct trade of goods and services. For instance, a farmer may exchange a bushel of wheat for a pair of shoes from a shoemaker.

When and Where Did Coin Minting Begin?

The world's oldest known, securely dated, coin minting site was located at Guanzhuang in the Henan Province of China. The mint began striking spade coins sometime around 640 BCE, likely the first standardized metal coinage.

When Were Coins Replaced by Paper Money?

The Chinese moved from coins to paper money around 1260 CE. By the time Marco Polo visited China in approximately 1271 CE, the emperor of China had a good handle on both the money supply and its various denominations.

The Bottom Line

The evolution of money has carried us from bartering to coins, to paper currency, and now toward a world dominated by electronic and even virtual forms of exchange like Bitcoin. Each shift reflects changing economic needs and technologies, yet older methods such as bartering persist alongside modern systems. As long as people need a reliable way to trade value, the monetary system will continue to adapt and expand.

Book:

The Ascent of Money – Niall Ferguson

https://www.youtube.com/watch?v=lI3K7L4WyiA&t=1s (Niall Ferguson, video on the history of money)

Key Ideas in The Ascent of Money

Key Idea #1

The value of money comes from the trust we as societies place in it, not from its intrinsic worth (true worth of something, based off fundamental qualities, potential and cashflow)

Spanish conquistadors where motivated by the quest for gold and silver

More precious metals they could acquire, the more coins they could mint

Therefore, they thought they would have more money

It didn't make Spain richer, they made prices higher, as an increased quantity of money chased the same amount of goods.

Bank notes have no intrinsic worth; they are simply promises to pay.

The increase in supply of coinage led to its depreciation (when an assets value decreases over time) in value

- **The power and value of money come not from its physical worth but what people are willing to give you for it.**

Today physical money itself is worthless, as paper and base metal coins hold very little intrinsic value. Most of the money in the world doesn't even exist physically, it is entirely virtual and can be transferred electronically across the world without ever materializing physically.

We trust that the central banks who authorise the creation of money through national mints, government-chartered bureaus and a few specialized private security firms don't print too much money, because by the time we would come to spend it, they would be worth even less than the paper they are printed on. An overabundance of money will always lead to inflation.

- **Money is trust -> inscribed, it doesn't matter if it is on paper, shells, on clay or a screen, provided the recipient believes in it**

<u>Key Idea #2</u>

The system of credit and debit funds the financial system through the creation of money

One idea that revolutionized world history, is the idea that you can rely on people to borrow money from you and pay it back at some future date.

That is why the root of credit, is “Credo”. (I believe) -> (credo.finance) -> CREDO

- **Our entire civilization is based on the borrowing and lending of money.**

It makes vast quantities of people, good and services go around the world

The invention of credit and debt were one of the most important inventions in human history

The earliest forms of borrowing and lending are found in ancient Mesopotamia

As payment for deposits, lenders were given clay tablets inscribed with how much they were owed, similiar to IOU notes.

This evolved into the system of credit we know today

Banks are the primary creators of credit, which in turn funds the financial system through the expansion of money

The expansion of money means credit creates money.

Monetary expansion has been crucial in the funding of the financial system as the money created can be used to fund investments or buy goods. Without this basic relationship between debtor and creditor, the financial system would stall because the supply of money would become stagnant.

What is credit? And what is debit?

Credit: Credit is the ability to borrow money or obtain goods/services now with the promise to pay later, based on trust in your future repayment, often involving interest or fees.

It also refers to your financial reputation

Debit: A debit is an accounting entry that records an increase in assets or expenses or a decrease in liabilities, equity, or revenue, entered on the left side of an account.

<u>Key Idea #3</u>

The financial system is a combination of interconnected financial markets and institutions developed over centuries

The modern financial system was largely developed in Western Europe and North America.

In medieval Italy, increased trade with the Arab world brought with it financial rewards and better systems of accountancy. This led to the creation of the first banks, because merchants needed access to credit to fund their trade.

Banks are crucial to financial systems because the fund the system by facilitating credit

Italian city states were constantly at war with each other and needed funds to pay for soldiers and weapons. They raised these funds through the sale of bonds: loans to the government that paid a fixed rate of interest.

- **The next development of the financial system first appeared in seventeenth-century holland:**
  The joint stock market. 1602

Companies funded themselves by selling shares of ownership, which could be traded on the stock market.

This became very popular and spread quickly across the globe

In the 18th century, insurance companies used analysis of the financial markets to create huge investment portfolios that helped manage risk. Governments also expanded their role in the area in the 20th century

Finally, beginning in the 1920s, the real estate market was expanded massively through deregulation and government incentives.

This was done for political aims, to try to create a stable and self-reliant property-owning democracy.

Together, the relationships between these financial markets and institutions, make up the modern financial system.

Key Idea #4

Finance, in particular, access to credit, is the most effective way of providing a route out of poverty.

We are often told stories about “greedy bankers”: financial vampires who prey on the poor and unfortunate. They supposedly exploit the weaknesses and lack of financial knowledge in others to suck wealth from the bottom of society and hoard it at the top. Yet the financial system is in fact the best way for nations, communities and individuals to escape poverty and prosper with a sound financial basis.

Banks for example, allow savers to deposit money that can then be loaned to those in need. If the money were not put in the bank, it would lie dormant until its owner spent it. By depositing it in the bank, the money is made available to others. It can be transformed from its static state into a more dynamic form (credit) and thus be transferred from the “idle” to the industrious.

Without access to reliable credit, poor people must borrow from less-reputable sources. Loan sharks often prey on those who are desperate for money, but who can’t borrow from reliable financial institutions. Astronomical interest rates are charged and punishments for late payments can even take the form of violence.

Access to credit allows people to make long-term plans and decisions such as buying property, starting a business or investing in an enterprise.

As an example, consider micro-finance in poor areas. Through microfinance, relatively tiny amount is lent, usually to poor women with little or no collateral. These loans can fund the purchases of expensive items such as livestock or can help the borrowers start their own micro-businesses. Just a small amount of affordable credit can make a dramatic difference in areas of poverty.

Key Idea #5

In inefficient financial systems, such as the communist command economy or medieval feudalism, capital is unable to flow freely. Bureaucrats control financial resources inefficiently to fulfill political targets, or they hoard wealth to enforce social hierarchy. The situation is static, with little incentive for financial development. The financial system that developed in Western Europe allows the freest and most efficient flow of capital when compared to other existing systems. Competition is fierce; financial institutions need to be profitable and reliable, otherwise they will be swept aside by better ones. Societies that use the Western financial model have been able to prosper and spread at the cost of more backward economies.

As the more efficient nations spread their geographical reach in search of more resources and sources of profit, they increasingly encounter nations that were unable to manage their own resources properly. This manifested itself primarily as the rise of European Empires, whose power lay mostly in their financial might. Yet, because competition was so fierce, these Empires eventually crumbled and were replaced by economically stronger entities. In the twentieth century, the spread of the Western financial system continued through globalization. This development can be highlighted by several historical examples.

Between the eighteenth and twentieth centuries, Western nations with highly developed financial systems were able to dominate Asian countries, which, although rich in resources, had an inefficient, absolutist financial system.

In seventeenth-century Europe, the Netherlands, the birthplace of the stock market and a major developer of modern banking, was able to free itself from the much larger Spanish Habsburg Empire. Although the Empire was more abundant in gold and silver deposits, it had little economic understanding, which allowed the Netherlands to constantly outperform its rival economically.

- **Societies with a strong financial system will prosper at the expense of those that are financially inefficient**

Key Idea #6

No financial system is perfect. This is because the people who control it and invest in it are human beings, and humans are irrational by natura. Humans tend to swing between different moods, from optimism and euphoria to pessimism and despair. Where money is concerned, it tends to magnify these mood swings, making us even more irrational.

By nature, humans feel more comfortable in a crowd. We prefer to see what other people do, observing their successes and failures before making our own decisions. Human societies also tend to be unequal. We all have different strengths and characteristics, and these are judged by others on their perceived importance. Society does not value everyone equally. These irrational faults and inequalities are mirrored and even intensified in the financial system.

Firstly, financial rewards are not shared out equally. Those with the right attitude and skills to succeed in the financial world can gain wealth and power, while others will not earn the same rewards, Inequality lies at the heart of the human condition.

Just as people experience mood swings, the financial markets also crash from highs to lows very quickly. Investor confidence is especially fragile. People are easily scared when their money is involved and will tend to overreact to anything that affects their financial situation.

People will also watch to see what other investors do in certain situations and then copy them. This tends to make financial markets unstable, because people rush in and out of investments en masse.

- **The financial system mirrors human nature and is therefore deeply irrational and unequal**

Key Idea #7

The stock market is like a balloon. When confidence is high, the prices of stocks and shares rises and the market inflates. When confidence is low, investors take their money out of the market, and it deflates.

Sometimes the market will inflate at such a sharp rate that prices become unsustainable. Like an overfilled balloon, the pressure bursts the market, making prices fall dramatically. This is known as a stock market bubble.

Stock market bubbles are a relatively common financial phenomenon. They also generally follow the same pattern. Nevertheless, investors are often surprised by them, because they fail to recognize unsustainable growth in the market. Many lose substantial amounts of money when the bubble bursts.

There are many reasons why bubbles develop and why people fail to recognize them.

The average financial career of a Wall Street CEO lasts 25 years. Not long enough for most to grasp the up-and-down-nature of the market. Many feel that the good times will go on forever and fail to understand the downside of high growth. Sometimes unscrupulous executives will exploit naive investors by falsely convincing them of the company's success and profitability, thus artificially pumping up share prices and reaping large bonuses. When such fraud is eventually unmasked, the share price collapses, leaving stockholders to bear the cost.

The final reason for bubbles is that people don't fully understand the financial system; many are lured in by tales of high profit margins and extraordinary growth. These elements combine to produce unsustainable growth in market. As more and more people are sucked in, the market grows and grows, until suddenly the bubble bursts, leaving investors with devastating losses.

- **The stock market tends to develop bubbles, all of which eventually burst**

Key Idea #8

Inflation and hyperinflation are often caused by the political mismanagement of a currency.

Inflation means the weakening of the value of money. A small amount of inflation is to be expected in any economy as more money is always being created but excessive inflation, or hyperinflation, can be very dangerous.

It is particularly perilous for those holding government bonds and savings in a particular currency, because these forms of wealth become less valuable.

Hyperinflation is often the result of systematic mismanagement of a nations currency and a monetary system. It can only occur, though, if a nation prints enormous amounts of money and fails to keep its national debt under control.

- **The responsibility for this phenomenon lies with the central bank or government; therefore, its root causes are political**

Quite often there are deliberate reasons behind currency depreciation and hyperinflation. They can be effective ways for a government to wipe out its domestic debts, because they significantly decrease the value of these debts.

At other times, hyperinflation is the result of bad government policy stemming from political instability or the failure to solve long-term central economic problems.

Whatever the reasons for hyperinflation, it will always carry far-reaching, negative effects for society. It destroys the wealth of domestic creditors and savers whilst also hurting those on fixed salaries. It also severely weakens the credibility of the currency because outside investors will want to charge higher interest rates to compensate for lending to an unreliable borrower. This will also hurt domestic borrowers.

Hyperinflation demonstrates the power that states ultimately hold over the financial markets, but it also demonstrates the dangers of trying to fight against the market.

Key Idea #9

Both private insurance and the welfare state are imperfect systems for minimizing financial risk and uncertainty.

Modern private insurance was invented in eighteenth-century Scotland by two hard-drinking Protestant ministers who wanted to provide financial aid to the families of deceased vicars. They used advancements in social and statistical analysis to create the first insurance scheme in which a member's premiums were pooled and invested to provide returns. These returns could then be given to members in need. The new system of private insurance provided financial help to the unfortunate and partially mitigated the element of financial risk in life. It proved to be very popular, and systems of insurance spread rapidly in the nineteenth century. Nevertheless, insurance coverage was far from universal. There were always people who were too poor or lazy to take out insurance. For them, the loss of financial security led to extreme poverty or forced them to enter the workhouse, a prison-like institution for those unable to support themselves.

Before long, politicians realized that by providing insurance for these people, they could promote social stability and win over voters.

The welfare state aims at minimizing financial risk, through policies such as universal health care, old age pensions and free education. There is, however, a downside: it has been argued that high taxes and universal coverage remove incentives to work hard and save money. Many welfare states face skyrocketing healthcare costs and pensions due to an aging population.

Over the last few decades, there has been a backlash against the welfare state. Some governments have attempted to dismantle parts of the welfare system to encourage people to take financial risks once again.

To protect themselves from risk, individuals have to choose between expensive, uncertain private insurance and the hope that the shrinking welfare state will be able to care for them.

Key Idea #10

The deregulation of the real estate market shows how political decisions can have dramatic financial repercussions.

Throughout history, political aims and financial reality have clashed dramatically. This is perhaps best demonstrated by the developments in the real estate market in the twentieth century. Governments, especially those in the English-speaking world, have pursued policies to increase the percentage of homeowners. The rationale behind this lies in the belief that property owners are more self-reliant and secure than people who rent their homes.

Yet, whilst this goal of a property-owning democracy was a politically advantageous, its financial ramifications have been unbalancing. Consider for instance the 2008 financial crisis, the largest since the Wall Street Crash of 1929. It led to bank failures, national bailouts and a global debt crisis, and its cause lay in the deregulation of the US housing market.

In an attempt to increase property ownership in the USA subprime leading was promoted by the George W. Bush administration in 2003. A subprime loan is a loan to someone who would traditionally have been thought too risky to lend to.

Politically, the loans were a positive step towards widening property ownership, especially amongst ethnic minorities. Financially however, subprime lending was unsustainable; it was only possible through a form of financial alchemy. Those who gave out the original loans knew how likely the borrowers were to default, so they repackaged and resold the loans across the world to those who did not understand their risky nature

The illusion was only temporary; as soon as the borrowers began to default on their loans, house prices tumbled. Across the globe, institutions such as pension funds and even some municipal governments in Norway were left with worthless debt, and the crisis then spread further throughout the financial system. The global financial system collapsed due to the manipulation of the housing market for political gain.

https://www.youtube.com/watch?v=_gcNMu40jqs&t=1021s (Garys Economics: What is money?)