



Course I:

DeFi Infrastructure

1. The History of Decentralized Finance

(ii) Can Money have Intangible Value?

A brief history

Can money have value with no backing? - Iraqi Swiss dinar

- Iraqi Swiss dinar was the currency of Iraq until the first Gulf War in 1990 (plates made in Switzerland, printed in the UK)
- In 1991, Iraq was split in two with Saddam Hussein in the south the Kurds in the north
- Because of sanctions, could not import dinars so Saddam ordered the printing of a new currency

A brief history

Iraqi Swiss dinar

- In May 1993, the Central Bank of Iraq announced that citizens had three weeks to exchange old 25 dinar notes for new ones



A brief history

Iraqi Swiss dinar

- However, old Swiss Dinar continued to be used in the north.
- Saddam cranked the printing press to finance regime and soon the exchange rate was:

300 Saddam dinars=1 Swiss dinar

A brief history

Iraqi Swiss dinar

- Key insight is that Iraqi Swiss dinar had no official backing yet it was accepted as money – because people were willing to accept it as money.

<http://www.npr.org/sections/money/2010/10/04/130329523/how-fake-money-saved-brazil>

A brief history

Other examples

- There are plenty of other historical examples with the island of Yap being the most famous
- It is essential to recognize the difference between tangible and intangible value



<https://www.pinterest.com/pin/37788084347049310/>

A brief history

2021 DeFi

- Enables peer to peer transactions without a centralized institution
- Allows for an efficient barter mechanism
- There are many problems with centralized finance