Remote Learning Packet

NB: Please keep all work produced this week. Details regarding how to turn in this work will be forthcoming.

April 13-17, 2020

Course: 10 Economics

Teacher(s): Mr. Loomis joseph.loomis@greatheartsirving.com

Weekly Plan:

Monday, April 13

☐ Answer questions on yesterday's reading. (From April 10th)

Tuesday, April 14

☐ Read pp. 125 - 130b, following along with the supplemental notes.

Wednesday, April 15

☐ Read pp. 131t - 135t "...completed almost instantaneously.", following along with the supplemental notes.

Thursday, April 16

☐ Read pp. 138 "Renaissance…" - 146m "...average Dutch investor of 1800."

☐ Follow along with the timeline and the map.

Friday, April 17

☐ Read pp. 146m "Debt in England..." - 156m "...cash-poor former colonies."

☐ Follow along with the timeline and the map.

☐ Homework: review for a brief quiz on Monday.

Statement of Academic Honesty

I affirm that the work completed from the packet is mine and that I completed it independently.

I affirm that, to the best of my knowledge, my child completed this work independently

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Student Signature

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Parent Signature

Note:

- This section, unlike the section on Marx, is more fact-based than conceptual (apart from the brief conceptual notes on the supply and demand of money). You are expected to know the definitions that I give you as well as the major dates. You do not need to know the map, although as general information it should be familiar to you. This will be included on the supplemental worksheets. You should expect to be quizzed on the concepts of what is capital, its factors of cost, risk and information, the important vocabulary and the timeline.
- As a note of reassurance: the amount of information and reading are going to feel overwhelming. This is normal. We will be doing a section on practical finance next week, so it will be very helpful to struggle with the concepts this week and to try your best to know them for the quiz. Do not try for a word-for-word understanding, but rather a general one. The quiz will be in the form of matching and fill in the blank questions.

Monday, April 13th

Briefly review your notes and give an explanation of the following concepts in your own words. Each explanation should be between 2 - 4 sentences.

- Man as a species-being, free and universal, pp.5m-6b
- The objectification of man's species-being, p.7t
- The estrangement of man's species-being, p.7m
- The emergence of private property, pp.7b-9m

Tuesday, April 14th

- See supplemental reading.

Wednesday, April 15th

- See supplemental reading.

Thursday, April 16th

- See supplemental reading.

Friday, April 17th

- See supplemental reading.

Supplemental Readings

Tuesday

Capital

Introduction

- Capital: wealth, usually in the form of money, owned by a person.

- As you are reading, ask yourselves how the factors of cost, risk and information (even if they are not clear to you already) appear in the story of Edison, Morgan and Villard.

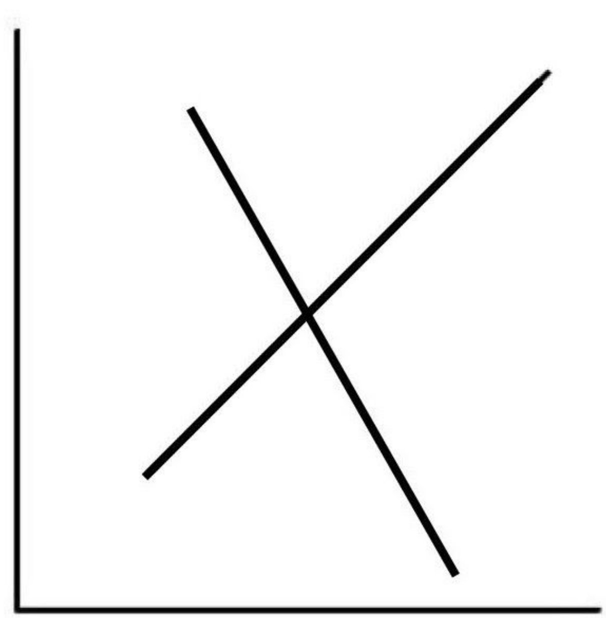
The Cost of Capital

- The *cost* of money is *interest*. Interest is money paid regularly at a particular rate for the use of money lent. It is expressed as a percentage of the total amount that is not repaid.

- A loan: something given for a limited amount of time (here money) that is expected to be returned.

- *Cheap money* is when the interest rate is *low*. *Expensive money* is when it is *high*.

- The main factor that determines the size of the interest rate is the *supply and demand* of money. In this case the *suppliers* are the *lenders* and the *demanders* are the *borrowers.*
    - *Cheap money* (a low interest rate) results from there being many lenders and few borrowers: much supply and little demand.
    - *Expensive money* (high interest rates) results from there being many borrowers and few suppliers: little supply and much demand.
    - See if you can sketch this out using the supply and demand graph to see how price is influenced by shifts in supply and demand.



- The wealth of a nation tends to be proportional to how cheap money is (how low interest rates are) because the cheap availability of money stimulates business.

- Do not worry too much if you don't understand much on p.130. Just make sure you under understand the following terms:
    - Bonds: a certificate issued by a government or a public company promising to repay borrowed money at a fixed rate of interest at a specified time.
    - Shares: one of the equal parts into which a company is divided, entitling the holder (investor) to a part of the profits.
    - Stock: the capital raised by a business through the sale of shares.

Wednesday

The Risk of Capital

- Another factor in the price of capital is *risk.* If a lender has a certain amount of extra money that he is willing to give out in exchange for interest, he is more likely to do so if the person can show that they are trustworthy than if they are not. The more trustworthy the person can prove themselves to be, the cheaper the money, and the lower its interest rate. Vice-versa for an untrustworthy person.

- Risk can be one of two things: *concentrated* or *diluted.* The example on p. 131 is helpful, but think of the difference as one between the following:
    - <u>Concentrated risk:</u> risk is greater the more it is concentrated, because there is more at stake for the fewer people involved. This, because they might take the entire loss if the investment fails. For example, if one or two people invest millions in a start-up, there is the risk that the start-up could fail and that they lose their entire investment.
    - <u>Diluted risk:</u> It is less risky the less concentrated (or the more diluted) it is. The more spread out an investment is (the more people share the risk) the less risky it is. Think of the previous situation, but instead of one or two persons, there might be 50+ people involved in the investment. How much risk would each person be taking in comparison?
    - As a result of these factors, lenders will decide what kind of an interest rate they will ask for the use of their money.

- We will go into bankruptcy laws and *Limited Liability Corporations* later. For now, I want you to understand that the general solution for reducing risk is to dilute the risk, or *syndication*. <u>A syndicate is</u> a group of individuals or organizations combined to promote some common interest. In this case, sharing an investment.

Thursday

Timeline

- XVIIIth BC: Mesopotamians make use of commodity loans with fixed interests rates. Interest rates are very high.
- Ancient Greece: development of certain forms of insurance, which is a form of profit-bearing risk game. Interests rates were very high.
- Ancient Rome: availability of low interest rates, but inconsistency based on an unsteady foundation: taxes, war, limited commercial activity.
- Italy:
    - XIIIth AD: Venice* becomes a major financial center, financing wars through taking out interest bearing loans from wealthy citizens.
    - XVIth AD: appearance of the bill of exchange, a promissory note (an agreement between a creditor and a debtor involving interest) with the ability to be bought and sold. The *bill of exchange* is an early form of a security, a financial *item* that can be bought or sold. For example, a bill of exchange, a loan or a share.
- Holland/The Netherlands*:
    - XVth-XVIth AD: the center of European finance moves from Italy to the Netherlands, first to Hanseatic cities (around Bremen and Hamburg)*, then to Antwerp* and finally to Amsterdam*. The Dutch invent new types of *securities* and expand their use.
    - XVIIth - XVIIIth: the Dutch continue to invent new types of *securities*, expand the general access to capital and make Amsterdam the first financial capital of Europe.

Friday

Timeline

England*:

- 1688: *The Glorious Revolution* in England. The Catholic monarch James II is overthrown and replaced by the Dutch Protestant William of Orange. Dutch finance makes its way to England.
- XVIIIth: introduction of government debt in England, sold to the public with the promise of bearing interest, in order to solidify the national economy.
- XVIIth: introduction of the first joint-stock companies and *Limited Liability Corporations*, in England and in Holland.
    - Joint-Stock Company: a company owned and financed by share-holders.
    - Limited-Liability Corporation: a company where the share-holders are not financially responsible for the company.
- XIXth: the British government starts to repeal laws that discourage investments and JSCs. Eg. eliminating tariffs and debtor's prison. This incentivizes investment in England, and leads to that nation, and specifically London*, becoming the financial capital of the world. This in turn leads it to become the world's economic and military leader.


HISTORY OF FINANCE
~ XIII TH - XIX TH
NORTH SEA
ENGLAND
LONDON
AMSTERDAM
ANTWERP
VENICE
FLORENCE
ITALY
ROME
ADRIATIC SEA
LEGEND
HANSEATIC LEAGUE: XV TH
NETHERLANDS: XV TH - XVI TH
• CITIES
① BREMEN
② HAMBURG