PART A : ARTICLE

THE ASCENT OF MONEY

The title of the book the *Ascent of Money* by the eminent historian Niall Ferguson is a play on Jacob Bronowski classic *The Ascent of Man* which is a history of scientific progress. In this book Niall Ferguson argues that finance has been the crucial ladder in the making of the modern world. Though somewhat precarious like all ladders, it is an indispensable ladder for building anything.

The significant increase in the finance sector in the last few decades suggests that "planet finance" is much larger than the real economy of planet earth and at least as important as the production of goods and services. This has raised concerns about excessive financialization and its negative impact on the real economy.

Though justified, this is not a new concern.Throughout history, people have despised financiers as parasitical on the "real" economy of agriculture and manufacturing. Since financial crises occur periodically the financial sector seems to cause poverty and not contribute to prosperity.

According to Ferguson such a portrayal of finance sector is wrong-headed because finance in reality has contributed immensely to modern civilization. Major advances in civilization have been facilitated by finance. Modern civilization would not have been possible without banks, bonds, equities, insurance, mortgages and consumer credit.

Banking

While banks do many things, their primary role is to take funds called deposits from those who have money, pool them and lend them go those who need money. They essentially serve as intermediaries between depositors and borrowers. Modern civilization would be inconceivable without an intermediary that facilitates allocation of resources in an economy. While primitive forms of banking have existed over two to three millennium, modern banking emerged during the Italian Renaissance. Now banks are omnipresent with global reach.

Bonds

One of the great innovations of early medieval Italy was the bond which was used to finance wars among the Italian states. As Ferguson wrote, "After the creation of credit by banks the birth of the bond was the second great revolution in the ascent of money."

A bond is an instrument of borrowing used by governments, corporates and others. The funds raised by issuing bonds can be used for productive purposes like building infrastructure and manufacturing facilities or pursuing military ambitions. The house of Rothschild, the biggest bank of nineteenth century, rose on the back of the bond markets and success in financing war. The emergence of Rothschild led to a transition from wealth being based on land and aristocracy to income producing liquid form of wealth.This enabled owners of securities to live wherever they liked and increased the importance of cities. The new wealth based on money and paper created a new social order, undermining old elites.

Bond markets serve as judges of the creditworthiness of borrowers and determine the cost of credit.

Stocks

After the invention of banking and the creation of the bond market, the next crucial step in the ascent of money was the emergence of the modern, limited liability "joint stock company" along with stock markets. It allows many people to take a stake in the equity capital of business enterprises. As equity shareholders they enjoy the upside of the business while limiting the downside to the amount of capital contributed by them.

Stock markets enable the general public to take arms-length stakes a number of companies. By diversifying their portfolio, they can reduce the risk of their wealth being blown up by one ill-judged investment.

While stocks are riskier than bonds, they provide a higher expected return in comparison to bonds over a period of time. Equity investors get the "equity risk premium" for bearing the risk associated with equity investment.

Insurance

Insurance has been a major financial innovation. The earlier forms of insurance were akin to gambling. As the analysis of risk evolved using probability theory, actuarial mathematics became scientifically grounded. It is interesting to note that the first modern insurance fund was created by two Church of Scotland ministers, Robert Wallace and Alexander Webster and a mathematician, Colin Maclaurin, who wanted to alleviate the penury of the family of the ministers. The "Scottish Minister's Widow's Fund" created by them became the model for all funds insuring against premature death within a couple of decades.Being insured became a mark of middle-class stability. With the extension of voting rights there was a pressure on governments to provide low-cost insurance to protect a larger population. Germany passed the first social insurance in the 1880s, providing old age pension. This was followed in UK and other countries. States entered the insurance space because of the unwillingness of private insurers to carry many risks along with substantial savings of money spent on marketing and economies of scale.

Mortgage

The modern house mortgage is an innovation of the early 20th century. In 1920s home mortgages were not common in the US and were available for only for four to five years.

During the Great Depression, many banks almost stopped lending and began foreclosures.

Frank D Roosvelt's New Deal included measures for greater affordability of housing to head off the electoral gains made by the socialists. Home Owners Loan Corporation was set up for refinancing of mortgages and lengthening the mortgage terms up to 15 years. The fillip given to Savings and Loans mutual associations helped the people climb the property ladder. Along with that the federal deposit insurance was established to protect people's savings.

English speaking world has a particular passion for property, making countries like the US, UK, Canada, and Australia become genuine property-owning democracies. Later, home ownership with the help of mortgage finance spread to many countries. India too has been witnessing this phenomenon in the recent decades. It is worth mentioning that for most human history property ownership was largely reserved for the aristocratic elite. We have much to thank modern mortgage financing for democratizing home ownership.

In Conclusion

In conclusion, let us quote Niall Ferguson "Poverty is not the result of rapacious financiers exploiting the poor. It has much more to do with the lack of financial institutions, with the absence of banks, not their presence." He added "Far from being a 'monster that must be put back in its place….' financial markets are like the mirror of mankind, revealing every hour of every working day the way we value ourselves and the resources of the world around us. It is not the fault of the mirror if it reflects our blemishes as clearly as our beauty."

PART B : SNIPPETS

Nature of Heuristics

Gerd Gigerenzer argues that heuristics are necessary for good decisions and they are not the result of a flawed mental system. He believes that the heuristics that we display have been selected by the evolutionary process for the mind we have. Daniel Kahneman disagrees with this position. He does not think that the heuristics have been selected by the evolutionary process for the mind we have. He believes that the heuristics that we display are the side effect of the mind we have.

Need for Disciplined Intuition

People's confidence in their intuition is a poor guide of their ability because they don't know the limit of their expertise.This is particularly true in the domain of finance.

One of the problems with intuitions is that they come too rapidly and before we know we have a tendency to confirm them.

So Daniel Kahneman argues that there is a need for disciplined intuition or delayed intuition. Kahneman describes it as follows: "You look at one thing at a time independently and reserve judgment till you have it all. And then you can close your eyes. What comes to your mind after that exercise is going to be much more valid than the intuition that you might form if you don't go through this disciplined process."

Power Changes a CEO's Brain

Power corrupts. Power diminishes emotional capacity and damages the leader's brain. This emotional incapacity manifests itself in arrogance, pomposity, narcissism, and unwillingness to listen to others, and so on. As a person acquires power, physical and hormonal changes take place in the brain. This has been observed by researchers who have studied the heads of leaders under a TMS (transcranial magnetic stimulation) machine. Just the way, section 164 of the Companies Act requires that a CEO should not be of unsound mind, future regulators may mandate that CEOs should be TMS- tested every year and the results mentioned in the director's report.

PART C : WIT AND WISDOM

HUMOUR

Callers

A manager told his secretary," I don't want any callers this afternoon. If they say that their business is important, just tell them that is what they all say."

His wife called and told the secretary "I want to speak to your boss. I'm his wife."

The secretary replied, "That is what they all say."

Politician

A politician is a person who shakes your hands before the election and your confidence afterwards.

WISE SAWS

1. A book is a success when people who haven't read it pretend they have.

2. The chief danger in life is that you may take too many precautions. : Alfred Adler.