

What is Money?

The mechanism that connects value and liquidity.

Money's Goal: a stable and honest way to
(a) Keep score of profit and loss
(b) Enable exchange of value and liquidity.

1

Where the Money Goes

The Waterfall

The Fed



Regulated Banking System



Unregulated "Shadow Banking System"
of hedge funds and private equity.

2

Making Money Off Distortions

- Financial entities profit from disparities in perceived and actual value and liquidity.
- Some disparities caused by difference in how regulated and unregulated systems inter-relate, reward, and punish
- If distortions become too great, system becomes unsafe.
- 2007-8 Financial Crisis the latest example.

3

What The Fed Does

- Control – but not regulate – money, and liquidity
- Fed tools often a blunt instrument, can distort liquidity and value
- The Goal? Foster maximum employment and stable prices

4

Money Appetites Lately?

- Biggest consumer of Quantitative Easing money? Hedge funds and private equity.
- Few other sectors of the economy have had their appetite for debt and risk.

5

HOW DO BANKS AND HEDGE FUNDS DIFFER?

6

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