

MATL481 PROBLEMS 2. Week 3, 13.2.2019

Q1. *History of money*

Briefly summarise the history of money, including:

- (a) the purposes of money;
- (b) coins v. paper money;
- (c) the Gold Standard; sovereigns.

Q2. *The Big Bang.*

In Physics, the Big Bang is the beginning of the Universe, some 14 billion years ago, in a primordial explosion. In the UK financial world, the Big Bang is the changes introduced by/under the Thatcher government in 1986 (Trade Secretary: Michael Parkinson), which replaced the traditional distinction between *jobbers* (who executed trades) and *brokers* (who negotiated them). Previously, this distinction was one between *firms*. Afterwards, it was one between *roles*, within firms: a firm could then offer a ‘one-stop shop’ to customers.

There were efficiency savings, economies of scale etc. here. The price to be paid concerned *conflict of interest*. To prevent this within a firm, rules on *Chinese walls* were introduced, under which roles involving a potential conflict of interest were supposed to be kept strictly separate. This has broken down on occasion, with legal and criminal consequences.

Summarise the main points here; add any comments you wish.

Q3. *On being the right size.*

This is the title of a famous article of 1926 by the biologist J. B. S. Haldane (1892 -1964). Comment briefly on the relevance of this in finance and economics, and in particular on:

- (a) price takers v. price makers;
- (b) fractals and scaling, e.g. of Brownian motion.

NHB