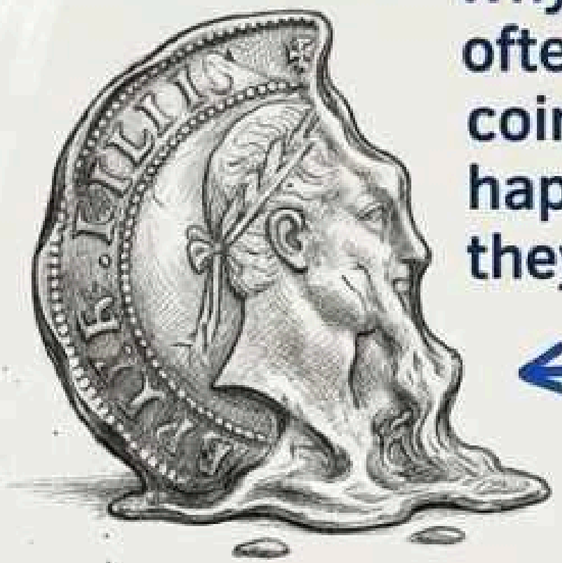
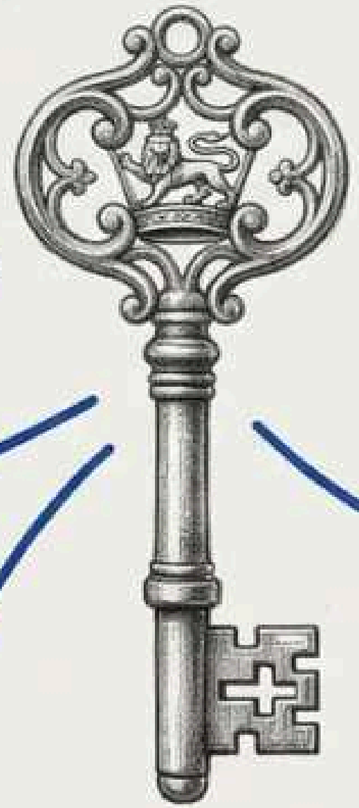
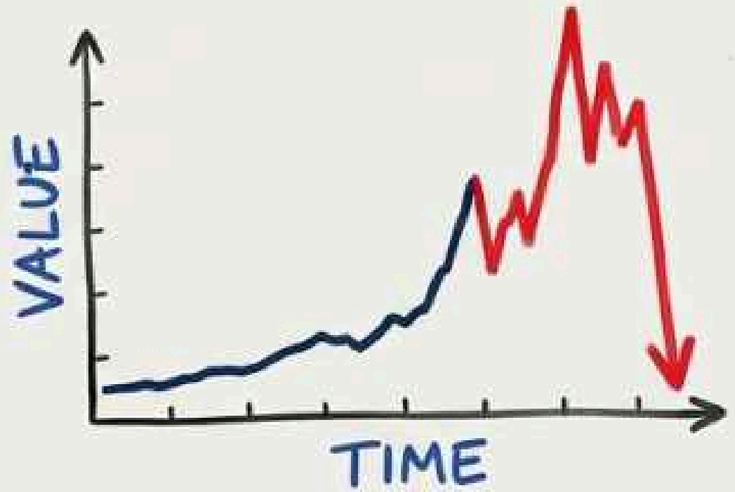
¶ 2.1



Why did rulers so often cheapen their coins, and what happened when they did?



What did the first great flows of silver and the first bubbles teach Europe about money?





How did banking begin, and how can a bank lend money that depositors still think is theirs?

Gemini Notebook

The Mechanics of Debasement

¶2.2

Coin Value ≠ Metal Content





The Winner

Ruler gains at once (funds for war).

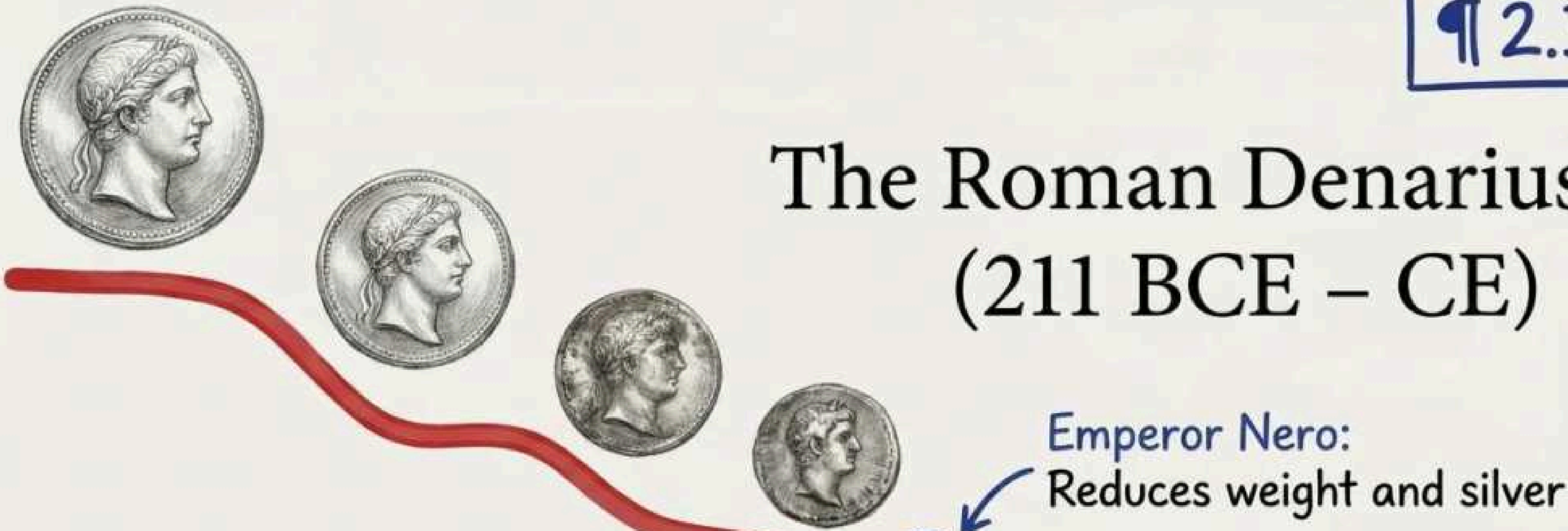


The Losers

Holders of coin slowly lose purchasing power.

¶2.3

The Roman Denarius (211 BCE – CE)



Silver Content & Weight

211 BCE

64 CE

Emperor Nero:
Reduces weight and silver

More coins enter circulation
→ No new silver enters the system

The Failure of Decree (3rd Century CE)

¶2.4

Diocletian's Edict on Maximum Prices (301 CE)

Prices Rise (Currency holds only a few percent silver)



It failed, because laws cannot make a bad coin worth more.

Gresham's Law

¶ 2.5

Same Face Value



More Silver (Good)



Hoarded / Disappears from use

Less Silver (Poor)



Spent / Remains in circulation

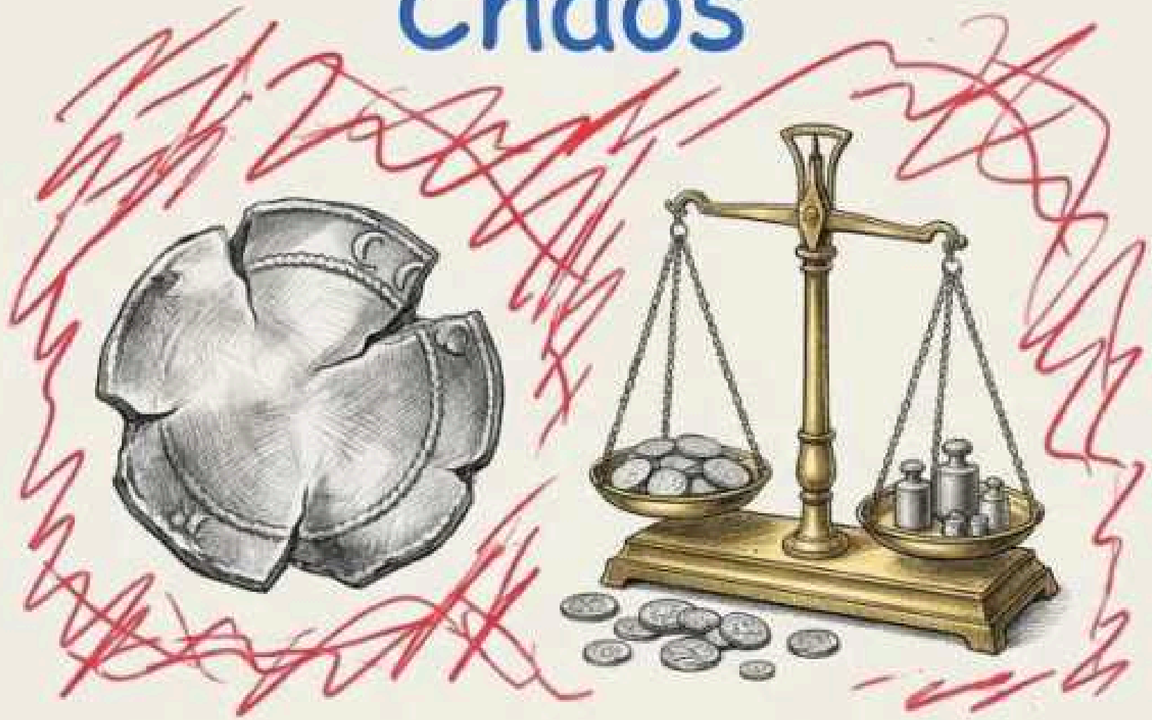


"Bad money drives out good."

The Medieval Minting Chaos

¶ 2.6

Chaos



Local lords & cities strike own coins. Counterfeits & clipped edges require constant weighing.

Trust



Gold Florin
(Florence, 1252)



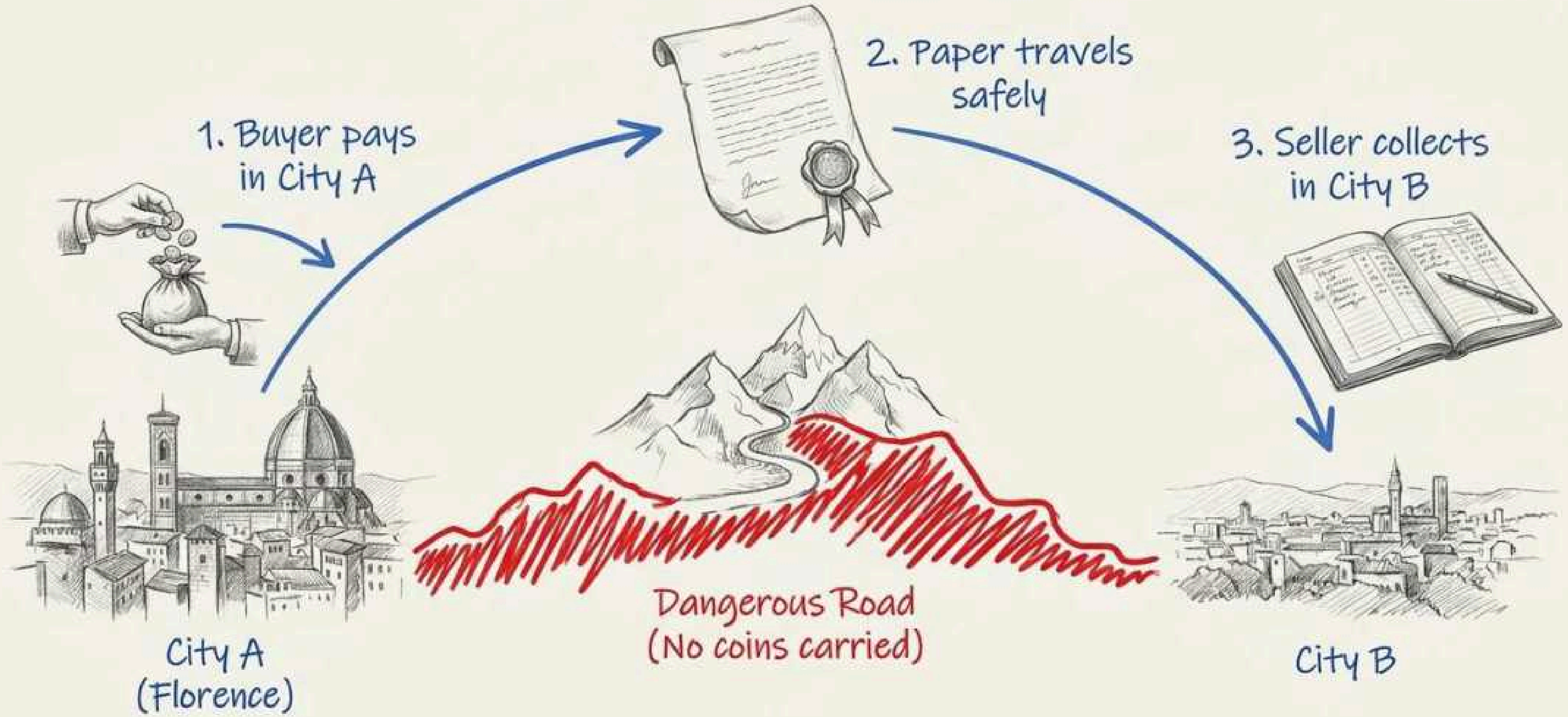
Gold Ducat
(Venice, 1284)

Certain cities earn lasting trust through pure, reliable minting.

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The Bill of Exchange

¶ 2.7



Gemini Notebook

The Medici Ledger (Founded 1397)

¶ 2.8



Exchange Rate = True Currency Value + Hidden Interest

The Church condemned charging interest (Usury). To hide profits, international branches disguised loans within the exchange rates on bills.

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The Goldsmiths of London (17th Century)

¶ 2.9

1. Deposit
Merchant hands gold to Goldsmith



2. Storage



Gold enters vault

3. Receipt
Goldsmith hands merchant a paper receipt



Depositors rarely come to collect all their gold at once.



4. Circulation
Paper receipt changes hands as payment



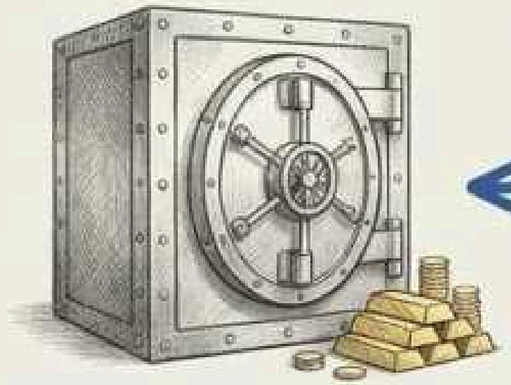
Gemini Notebook

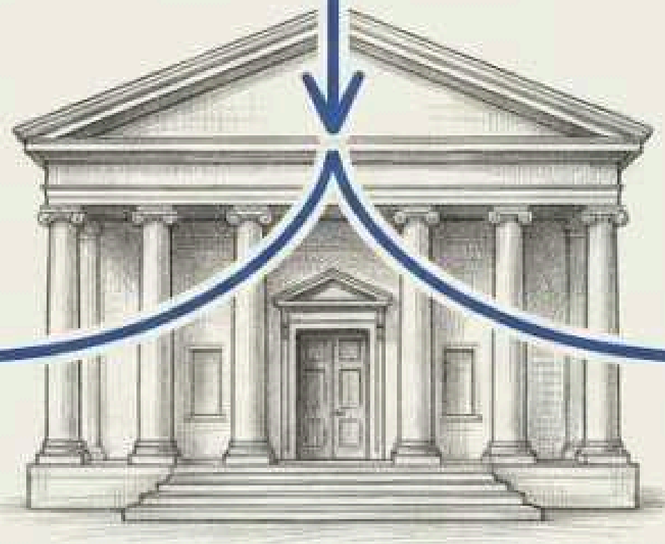
¶ 2.10

Fractional Reserve Banking

100 Gold Deposited

Reserve: 10 Gold





Lent Out: 90 Gold



Depositor Claims (100) + Borrower Cash (90) = **190** Total Claims

The bank creates more claims on money than it holds in cash. This is the basis of modern banking.

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¶ 2.11

The Bank Run

Fear bank cannot pay

Rush of depositors to withdraw at once

Bank quickly runs out of fractional cash

Even a perfectly healthy bank fails

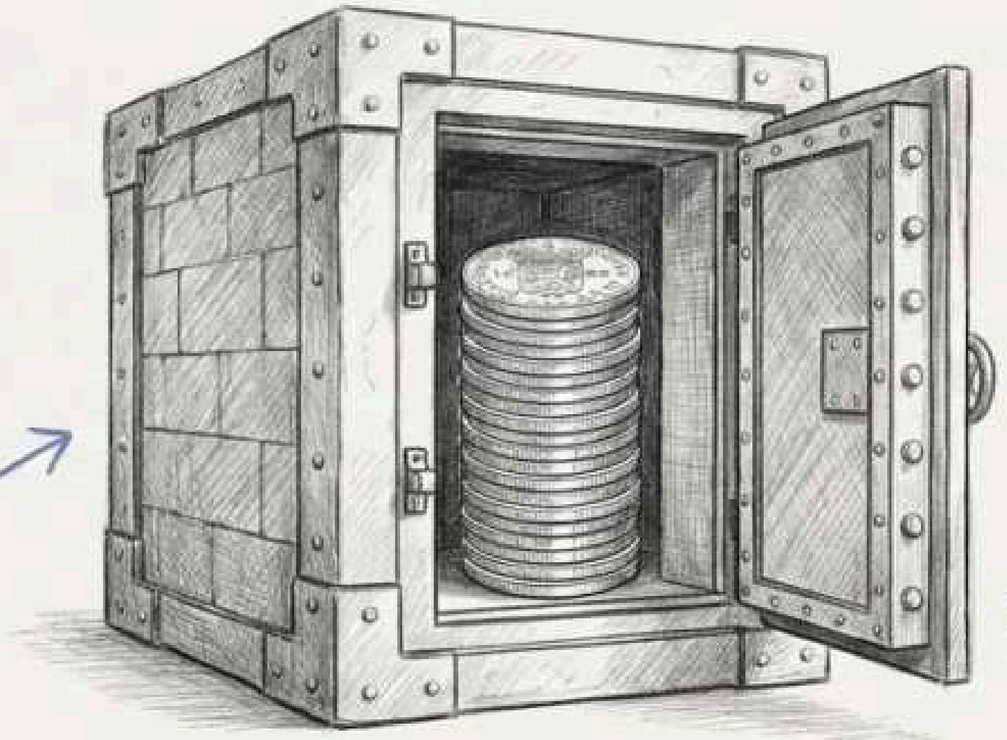


A self-fulfilling fear.

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¶ 2.12

The Bank of Amsterdam (1609)



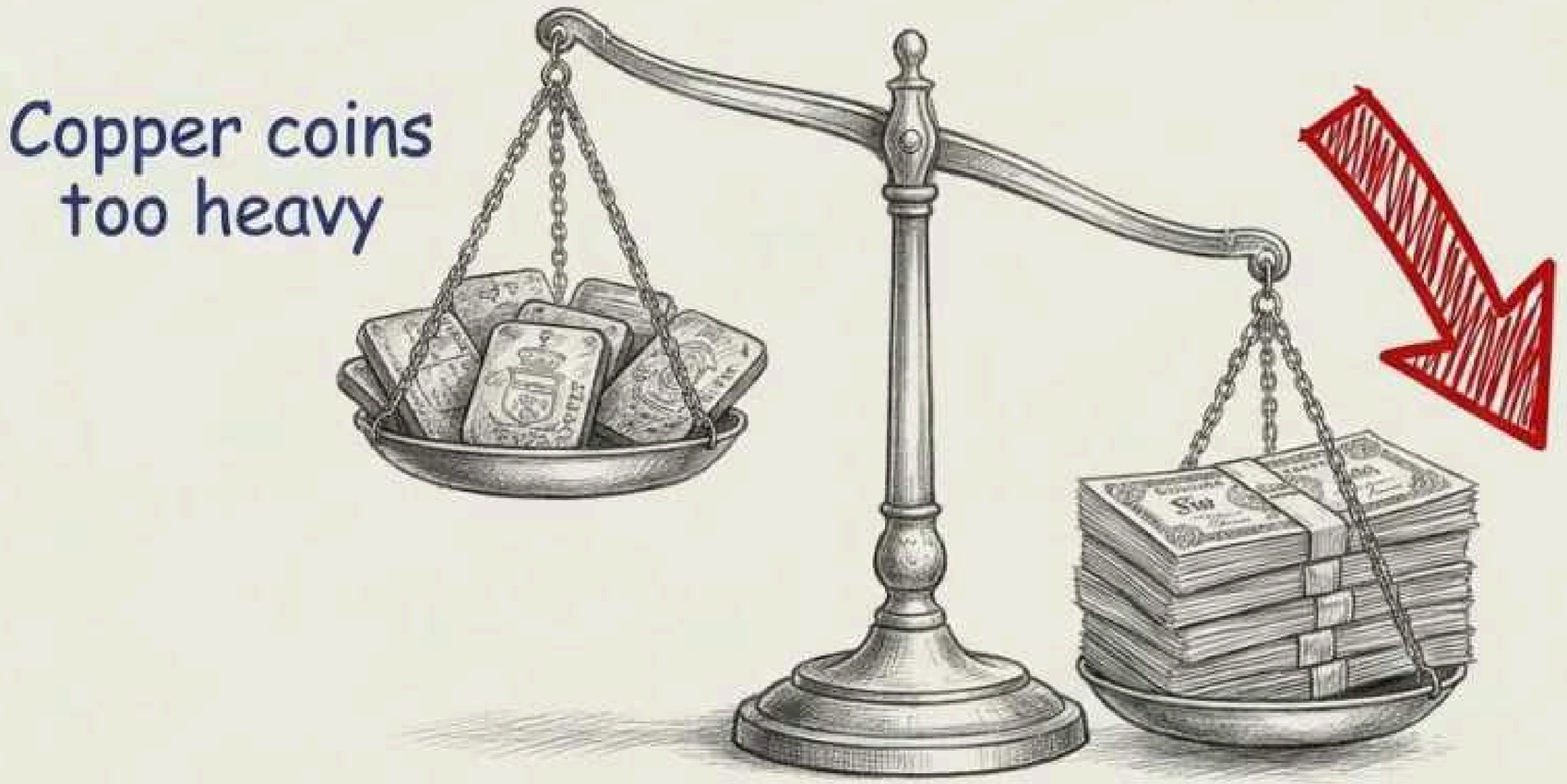
Bank Credit Value > Physical Coin Value

- *Merchants settle debts purely by moving credits in the bank's books.*
- *Why is credit worth more? Because it is reliably weighed and completely safe from clipping.*

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¶ 2.13

The Stockholm Banco (1661)

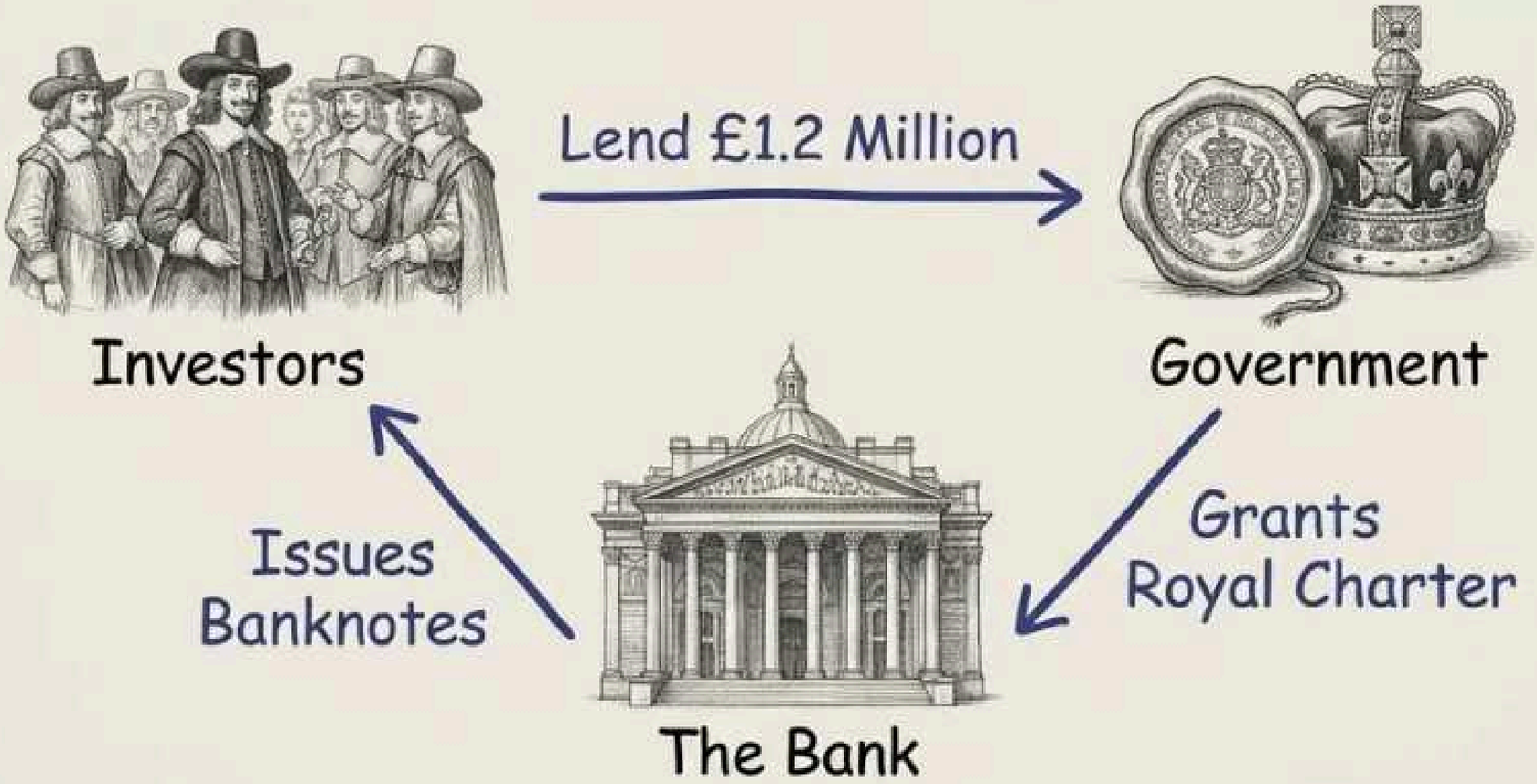


Failed in 1664. Bank issued more notes than it could redeem, showing how dangerously easy it is to over-issue paper.

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¶ 2.14

The Bank of England (1694)

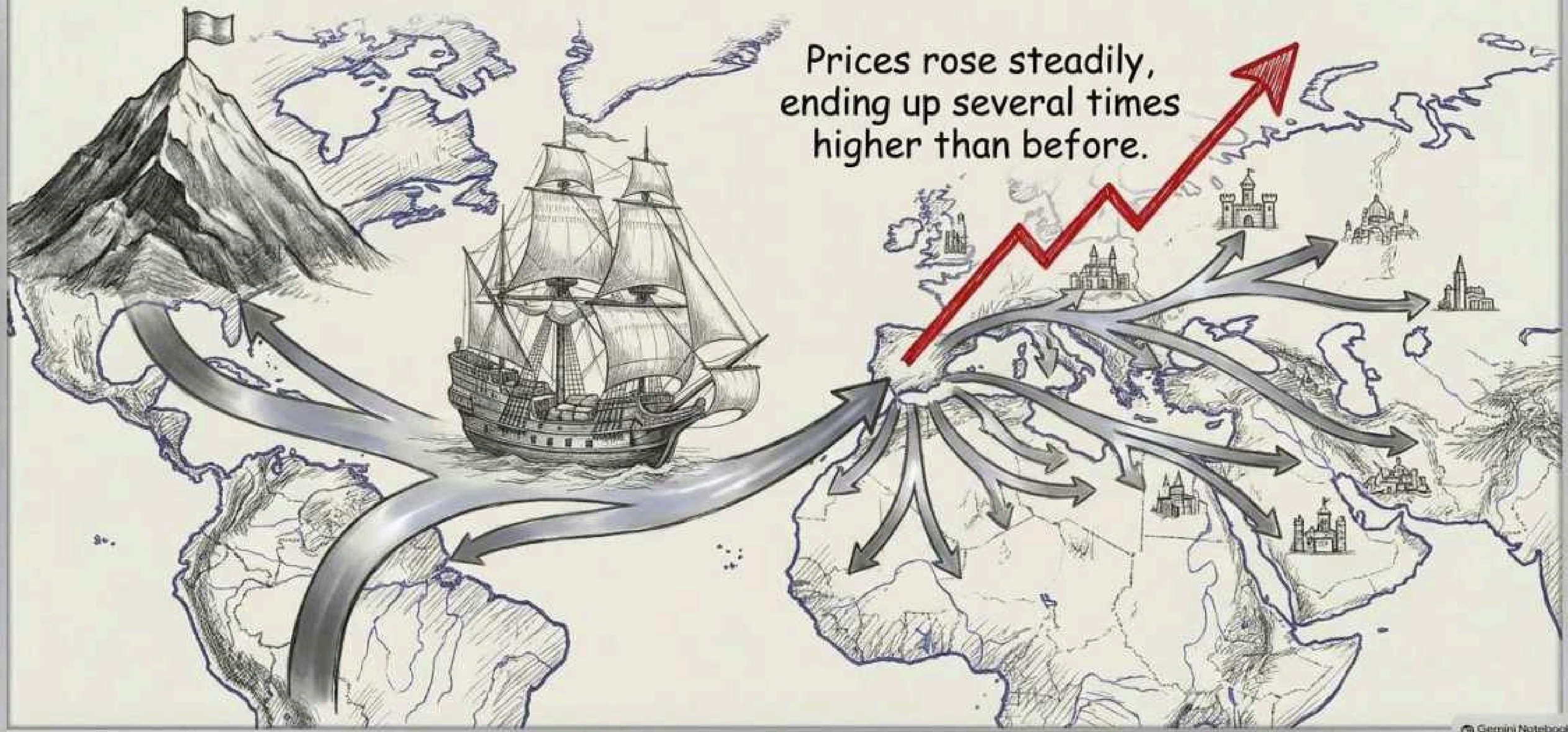


Tied public borrowing directly to banknotes, evolving from a private wartime company into the central bank of Britain.

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¶ 2.15

The Silver of Potosí (1545)



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The Quantity Theory of Money (1568)

¶ 2.16

$$\Delta M > \Delta Q \rightarrow \uparrow P$$

If the amount of money grows faster than the supply of goods, prices rise.

Observed by French thinker Jean Bodin.

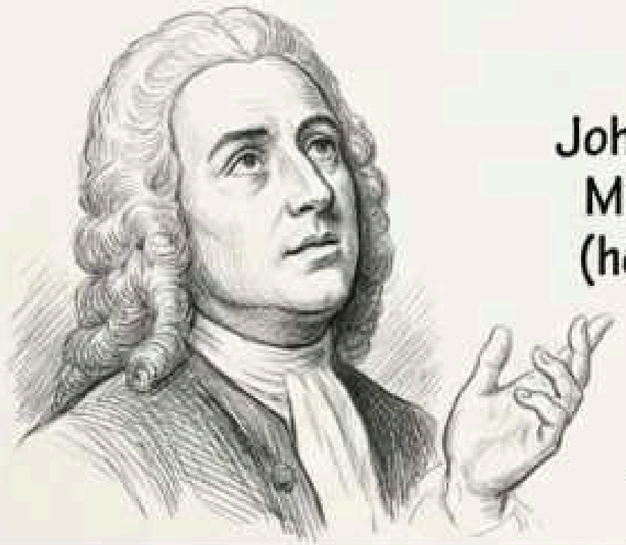


Despite being rich in silver, Spain still went bankrupt several times.

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The Mississippi Bubble (France, 1716–1720)

¶ 2.17



John Law founds bank & Mississippi Company (holds trading rights)

Investors encouraged to swap national debt for shares

Paper money issued specifically to fund the buying frenzy; share prices soar

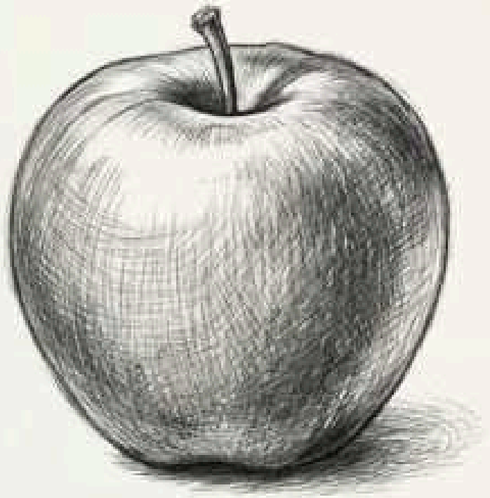
System collapses, taking his bank with it

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The South Sea Bubble (Britain, 1720)

¶ 2.18





Thousands of investors lost money, and even the towering intellect of Isaac Newton is said to have been among them.

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Synthesis: Trust, Innovation, and Danger

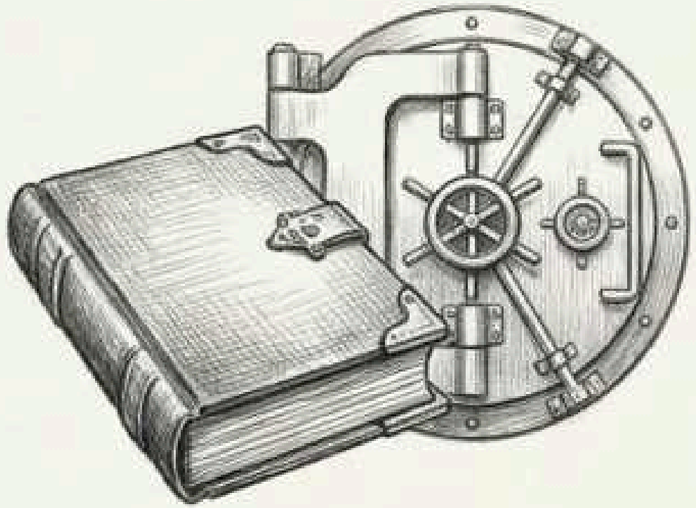
¶ 2.19

Coins & Rulers



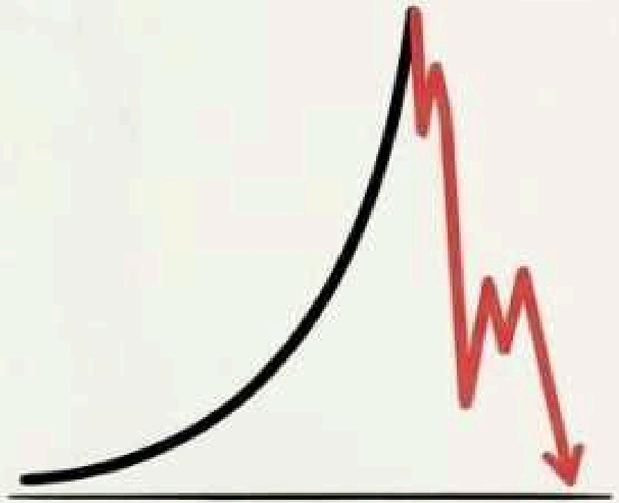
Rulers repeatedly debased coins to pay bills, demonstrating how tampering wrecks fundamental trust.

The Evolution of Banks



Transitioned from changing physical coins, to lending fractional reserves, to growing into massive public institutions issuing notes.

Silver & Credit



Global floods of silver and the invention of credit taught Europe brutal early lessons about inflation and systemic bubbles.

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The King's Dilemma

¶ 2.20

Suppose you are a king with an empty treasury and a war to fight...



Path A: The Temptation

What immediate pressures would tempt you to secretly debase your coins?

Path B: The Cost

What would the likely cost be to your realm in the long run?

Path C: The Limits

What forces could actually limit your power to do it, so that your subjects would trust your money?

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