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Final issue of the newsletter for this semester

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Richmond Finance

Society

Weekly Newsletter



Crisis in Greece knocks Euro to New Lows

On Thursday, April 22nd, the European Commission had made revisions to Greece's budget deficit, up almost a full percentage point. The Greek Government had previously estimated the budget around 12% of gross domestic product, while the new revision had lead to the deficit accounting for roughly 13% of gross domestic product.

The rising deficit had a major affect on the Euro, allowing it to tumble to a one year low against the dollar and a three month low against the pound. The currency was put under more stress as Moody's announced they would be downgrading the countries sovereign rating; perhaps even further if the rising borrowing costs did not stop.

Early trading on Friday helped pushed the Euro slightly higher after the Greek Prime Minister requested the eurozone and International Monetary Fund aid package.

Its fellow countries and the IMF have agreed to bail the out the country if it cannot fund its obligations in the market.



Harold Rosbottom

Why does money have value?

Money doesn't have any inherent value. It is simply pieces of paper or numbers in a ledger. A car has value because it can help you get where you need to go. Water has a value because it has a use; if you don't drink enough of it you will die. Unless you enjoy looking at pictures of deceased national heroes, money has no more use than any other piece of paper. It didn't always work this way. In the past money was in the form of coins, generally composed of precious metals such as gold and silver. The value of the coins was roughly based on the value of the metals they contained, because you could always melt the coins down and use the metal for other purposes. Until a few decades ago paper money in different countries was based on the gold standard or silver standard or some combination of the two.

This meant that you could take some paper money to the government, who would exchange it for some gold or some silver based on an exchange rate set by the government. The gold standard lasted until 1971 when President Nixon announced that the United States would no longer exchange dollars for gold. Now the United States is on a system of fiat money, which is not tied to any other commodity. So these pieces of paper in your pocket are nothing but pieces of paper.

So why does a five-dollar bill have value and some other pieces of paper do not? It's simple: Money is a good with a limited supply and there is a demand for it because people want it. The reason I want money is because I know other people want money, so I can use my money to others to get goods and services from them in return. They can then use that money to purchase goods and services that they want. Goods and services are what ultimately matter in the economy, and money is a way that allows people to give up goods and services which are less desirable to them, and get ones that are more so. People sell their labor (work) to acquire money now to purchase goods and services in the future. If I believe that money will have a value in the future, I will work towards acquiring some.

Our system of money operates on a mutual set of beliefs; so as long as enough of us believe in the future value of money the system will work. What could cause us to lose that belief? It is unlikely that money will be replaced in the near future, because the inefficiencies of a dual coincidence, the double coincidence is the situation where the supplier of good A wants good B and the supplier of good B wants good A of wants system are well known.

If one currency is to be replaced by another, there will be a period in which you can switch your old currency for new currency.

This is what happened in Europe when countries switched over to the Euro. So our currencies are not going to disappear.

Inflation of the currency causes people to want to get rid of their money as quickly as possible.

Inflation and the rational way citizens react to it, causes great misery for an economy. People will not sign into profitable deals which involve future payments because they'll be unsure what the value of money will be when they get paid. Business activity sharply declines because of this. Inflation causes all sorts of other inefficiencies, from the café changing its prices every few minutes, to the homemaker taking a wheelbarrow full of money to the bakery in order to buy a loaf of bread. The belief in money and the steady value of the currency are not innocuous things. If citizens lose faith in the money supply and believe that money will be worth less in the future economic activity can grind to a halt.

Money is essentially a good, so as such is ruled by the axioms of supply and demand. The value of any good is determined by its supply and demand and the supply and demand for other goods in the economy. A price for any good is the amount of money it takes to get that good. Inflation occurs when the price of goods increases; in other words when money becomes less valuable relative to those other goods. This can occur when:

1. The supply of money goes up.
2. The supply of other goods goes down.
3. Demand for money goes down.
4. Demand for other goods goes up.

The key cause of inflation is increases in the supply of money. Inflation can occur for other reasons. If a natural disaster destroyed stores but left banks intact, we'd expect to see an immediate rise in prices, as goods are now scarce relative to money. These kinds of situations are rare. For the most part inflation is caused when the money supply rises faster than the supply of other goods and

Rachel Soufan

The 1st Annual Finance Society BBQ



The first annual Finance Society BBQ took place Saturday, April 10, 2010 at the Richmond Hill Campus. The event was a great success and we sincerely appreciate all the people who came out and joined us. The proceeds were all donated to support the UNICEF Haiti Earthquake Children's Appeal charity. Below is the letter we received from David Bull, the executive director of the organization.



Dear Richmond Finance Society,

Your donation of GBP 67.50 supporting the Haiti Earthquake Children's Appeal has been gratefully received.

Your support will contribute to our essential work for the children affected by the earthquake in Haiti. For example, UNICEF is now reaching over 500,000 people with safe water daily, and we have set up 700 new latrines across all of the affected areas.

This will help uphold the rights of the children affected to be as healthy as possible.

UNICEF relies entirely on voluntary contributions and we receive no funding from the United Nations budget. If you would like more information please visit our website at www.unicef.org.uk

On behalf of everyone at UNICEF and all those who will benefit from your gift, thank you. Your support is very much appreciated.

Yours sincerely
David Bull

Executive Director

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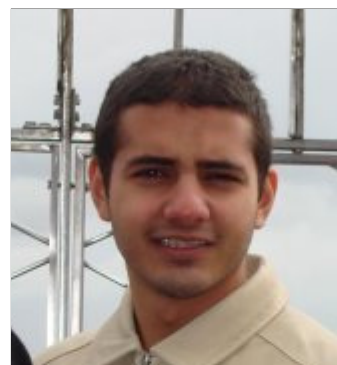
Letter from the Chair

It is no secret that for the past two years the finance society was inactive. This semester the revival of the society would have not been possible without the graduating students Grese Rexhepi, Cezar Coroblean, Lauren Schultz, Diana Simion, Jan Hendrik, Pascal Kraus, Fernanda Carreira and Mwiya Musokotwane. The input provided by this enthusiastic team made possible the release of nine issues! We also co-sponsored with the Economists Forum a lecture by Dr. Ivan K. Cohen, and we organized the Finance Society annual barbecue, a charitable event in which we gathered a significant amount of money for Haiti. It was a pretty decent start for the long term establishment of our society. Thank you guys, you will be missed and I wish you luck in your lives, not that you will need, as you are all destined to succeed.

Omar Elneser



Meet the Finance Team*!



Omar Elneser
Chair



Cezar Coroblean
Vice -Chair



Grese Rexhepi
Treasurer



Diana Simion
Secretary



Pascal Kraus
PR Officer



Lauren Schultz
Chief Editor

*Mentor: Dr. Ivan Cohen, PhD.
Associate Professor in Finance and Economics

Finals Week

From everyone in the Finance Society we would like to wish you all good luck on your exams over the next two weeks! It has been a great semester for the Finance Society and we hope you all consider joining and participating in events next semester.

Most of the executive board of the Finance Society will be graduating or leaving Richmond next semester so if you are interesting in holding an officer position please contact Omar Elneser.

Again, good luck with all of your final exams and have a great summer.

Joke of the Week:

A man went to his bank manager and said, 'I'd like to start a small business. How do I go about it?'

'Simple,' said the bank manager. 'Buy a big one and wait.'

