# The global credit market crisis and 'the mystery of banking'

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"[W]hen historical relationships are taken into account, it is difficult to ascribe th. house price bubble eith.r to monetary policy or to th. broad.r macroeconomic environment."

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### Debt pyramid

US nominal GDP and total debt, US\$bn

Source: Thomson Financial. - Nominal GDP annualized quarterly d- Nomme.2(m)stic nonfinancial

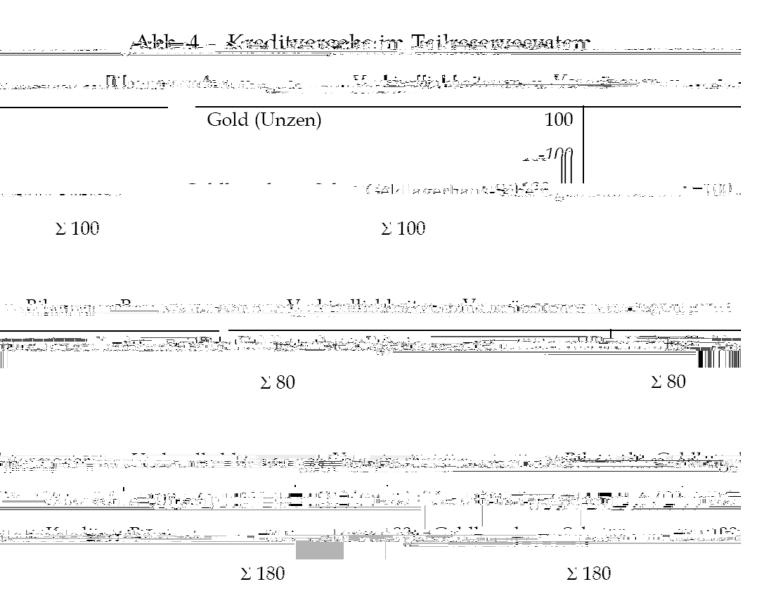
## What inflation really is (III)

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Figure 3: Long-run M1 demand, estimation results

|    |                    |      | $i_t^{long}$ : rank ( ) |         |         | $y_t$ | Tra ce<br>statisti cs | Max-eig en stat. St | $pe_t$ |  |
|----|--------------------|------|-------------------------|---------|---------|-------|-----------------------|---------------------|--------|--|
| l. | Q2 ′73 – Q4<br>′04 | (i)  |                         |         |         |       |                       |                     |        |  |
|    | 01                 | (ii) | =0                      | 60.151* | 29.766* | 1.972 |                       |                     |        |  |



#### Time preference (I)

- *Time* is omnipresent in human action as a means that must be *economized*.
- Š A fundamental and constant truth about human action is that *man prefers his* end to be achieved in the shortest possibl1 time. Given the specific satisfaction, the sooner it arrives, the better. This results from the fact that time is always scarce, and a means to be economized. With any given end to be attained, the shorter the period of action, i.e., production, the more preferabl1 for the actor. This is the universal fact of time preference.
- Š At any point of time, and for any action, the actor most prefers to have his end attained in the immediate present. Next best for him is the immediate future, and the further in the future the attainment of the end appears to be, the less preferabl1 it is. *The less waiting time, the more preferabl1 it is for him.*

#### Time preference (III)

- Š The lower (higher) time preference, the stronger (weaker) the economic forces work-ing towards civilization.
- Š The increase in the accumulation of capital via sav49. and investment raises

#### Time preference (IV)

- (ii) *Biological factors*. Children (adults) have a higher (lower) time preference; in fact, time preference may change over the life cycle.
- (iii) *Soc 2-8nd institutional factors* . Respecting (violating) property rights will en-courage, stimulate8.nd even accelerate8(disturb, halt or even reverse) the tendency toward a fall in time preference, leading to civilisation (decivilization).
- Š The chart below plots the time preference rate8(vertical axis) against the level of real money income8(horizontd axis). T18.nd T2 represent time preference schedules. Reflecting the law of diminishing marginal utility, T18 .nd T2 slope downward: the higher (lowe r) the level of real income is, the lower8(higher) is the marginal utility of present real money, 8.nd the lower8 (higher) is the time preference rate.

