

Museum of American Finance

Presents

“The Role of Capital Markets”

The Role of Capital Markets: When we examine great nations and how they build their economies over time, there are several defining characteristics. First, they instill basic rules of law and property rights. Second, they implement a financial system with capital markets, public banks, exchanges and central banks. This course explains the genesis of US capital markets and follows their developments to the present day. In addition, it describes key events in our nation’s financial history and their influence on our evolution.

Lecture Outline

1. **World GDP**
2. **The Diamond Growth Model**
3. **Effective Government**
4. **Forms of Government Participation**
 - a. Anarchy → Autocracy → Democracy →
 - b. One form of government is NOT a guarantee of success
 - c. Predatory, incompetent and non-predatory make the difference
5. **Non-Predatory Government is the MOST effective**
6. **Effective Government**
 - a. Three Crucial Public Goods
 - b. Superior Economic Incentives
 - c. Behaviors Matter → Not Labels
7. **Effective Government**
 - a. The Predatory Slide
8. **Dutch Republic - The First “Modern” Economy**
 - a. Established Effective Government and Finance
 - b. What is Effective Finance?
9. **Dutch Republic – “Modern” economy fuels wealth creation**
 - a. Henry Hudson and the Settlement of Manhattan
 - b. Defeat superior power and secure independence
 - c. Expression of wealth
10. **US Revolution**
 - a. Early growth incentives
 - b. US becomes a “melting pot”
 - c. British impose taxes → Revolution
 - d. Articles of Confederation → Constitution
11. **US Revolution**
 - a. The Tricky Part
12. **US “Financial” Revolution**
 - a. Seven keys to the revolution
 - b. Countries in modern history had successful financial revolutions?
13. **US “Financial” Revolution**
 - a. Alexander Hamilton
 - b. Establish a modern financial system for US to attract foreign investment and capital flows
 - c. A crucial US advantage: modern finance from the start

14. **Wall Street: Physical Becomes “Ideal”**
 - a. Place where people trade securities and share information
 - b. Access to capital for entrepreneurs
 - c. Entrepreneur’s fuel growth
15. **Capital Fuels American Growth**
 - a. Revolutionary War Bonds: Established Credit and Credibility
16. **A Century Years of Physical Need**
 - a. Convergence: Markets, Technology and Regulation
 - b. Social Impacts
17. **Modernization of US Markets**
 - a. **1972:** SEC forbids Fixed Commissions
 - b. **1994:** “Odd-Eighths” Scandal
 - c. **1998:** SEC Regulation ATS
 - d. **Early 21st Century**
18. **Threats to the US Financial Revolution**
19. **The Panic of 1792 - Instructive example**
 - a. A threat to financial modernization → Wall Street’s first crash in 1792
 - b. Could have failed at a number of points
 - c. Hamilton saves the day
 - d. Modern central bank-like intervention
20. **The Panic of 1792 - Background**
 - a. Story of William Duer and the attempt to corner the “market”
 - b. Merits of Plan
 - c. Contemporary Reactions → Macomb, Jefferson
21. **The Panic of 1792 – “The Events”**
 - a. Market Changes
 - b. Magnitude of Panic
 - c. Recent Facts
 - d. Political Fallout
22. **The Panic of 1792 – Intervention Then → Today**
 - a. Hamilton’s Role → Intervention Actions
 - b. Interventions end crisis with no damage to the US economy