

# THE RISE OF BANKING AND INVESTMENT

## WHY THE BANKING SYSTEM DEVELOPED

Long before 1750 Britain had a well developed money economy with gold, copper and notes. But several factors changed. The growth in wealth and business opportunities increased the need for both somewhere for money to be deposited, and a source of loans for buildings, equipment and – most crucially - circulating capital for everyday running. Specialist banks with knowledge of certain industries and areas thus grew up to take full advantage of this situation. Banks could also make a profit by keeping a cash reserve and lending out sums to gain interest, and there were many people interested in profits.

## BEGINNING OF THE STOCK EXCHANGE

In the 1600's, the Dutch, British, and French governments all had interests in the East Indies and Asia. It seems like everyone had a stake in the profits from the East Indies and Asia except the people living there. Sea voyages that brought back goods from the East were extremely risky - on top of Barbary pirates, there were the more common risks of weather and poor navigation.

In order to lessen the risk of a lost ship ruining their fortunes, ship owners had long been in the practice of seeking investors who would put up money for the voyage - outfitting the ship and crew in return for a percentage of the proceeds if the voyage was successful. These early companies often lasted for only a single voyage. They were then dissolved, and a new one was created for the next voyage. Investors spread their risk by investing in several different ventures at the same time, thereby playing the odds against all of them ending in disaster.

When the East India companies formed, they changed the way business was done. These companies had stocks that would pay dividends on all the proceeds from all the voyages the companies undertook, rather than going voyage by voyage. These were the first modern joint stock companies. This allowed the companies to demand more for their shares and build larger fleets. The size of the companies, combined with royal charters forbidding competition, meant huge profits for investors.

List the top 3 advantages brought about by the rise of banking and the stock exchange:

- 1.
- 2.
- 3.

## **Investing**

Your task:

1. Go to the computer lab and open the Excel document: stock\_market.
2. At the top of this document, you will find a website address that you will go to where you will search for stocks to invest in.
3. You will choose 3-5 stocks to invest in. You can't spend more than \$10,000.
4. In one week's time, we will return to the computer lab to see which student has made the most money.