PositiveMoney

THE POSITIVE MONEY QUIZ

Written and developed by David Faraday

PART ONE: IT'S ALL ABOUT THE MONEY

1.1 Like the chicken and the egg, which came first banking or money?
ANSWER: Banking

Comment: *There is historical evidence that indicates that banking preceded coined money by a number of thousands of years. Interesting, there is also evidence to suggest that the written word owes it origins to the need to keep accounts.*
See BOOK: Where Does Money Come From?
https://www.positivemoney.org/where-does-money-come-from/

1.2 Goldsmiths, or early bankers, started issuing promissory notes for the gold or silver they stored as early as 1633. But how many decades passed before these actually become recognised as legal tender?
ANSWER: 7 decades

Comment: *Goldsmiths promissory notes become recognised as legal tender through the Promissory Notes Act of 1704.*
See BOOK: Where Does Money Come From?
https://www.positivemoney.org/where-does-money-come-from/

1.3 In which year were independent or commercial banks legally stopped from printing their own bank notes?

a) 1814
b) 1844
c) 1874
d) 1904

ANSWER: b) 1844

Comment: *By the mid-19th Century the issuing of promissory or bank notes was getting out of hand. Banks were failing because they were issuing many more promissory notes than they had the gold to back them up; banks were failing. The government stepped in and passed a law that prohibited commercial banks from creating money through issuing bank notes. Currently in the UK, the Bank of England issues all bank notes for England and Wales. Seven retail banks, three in Scotland and four in Northern Ireland also issue bank notes, but this is regulated by the Bank of England.*
See POSTIVE MONEY WEB-SITE
http://www.positivemoney.org/how-money-works/how-did-we-end-up-here/

1.4 The population of the UK is around 64m, approximately how much cash (bank notes and coins created by the Bank of England) is currently in circulation in the UK economy?

a) £670m
b) £6.7bn
c) £67bn
d) £670bn

ANSWER: c) 67bn

Comment: *However, that's only around £1,000 worth of bank notes or coins for each member of the population, it doesn't sound enough does it?*
See POSTIVE MONEY WEB-SITE
https://www.positivemoney.org/how-money-works/how-much-money-have-banks-created/

1.5 When bank notes and coins are manufactured the government, via the Bank of England, essentially sells them to commercial banks at face value. This income, after manufacturing and distribution costs, is called:

a) Seiniorage
b) Dividend
c) Tobin Tax
d) Interest

ANSWER: b) Seiniorage

Comment: *In 2006, for example, seiniorage was worth almost £5bn to the UK government.*
See POSTIVE MONEY WEB-SITE
http://www.positivemoney.org/2011/03/seigneurage-foregone-by-the-uk-in-2006/

1.6 In our digital age, of course, we don't always use cash. Often we use electronic money, through debit and credit cards or through standing orders and direct debits from our bank accounts. So what proportion of the total money in our economy do bank notes and coins actually make-up?

a) 3%
b) 37%
c) 63%
d) 97%

ANSWER: a) 3%

Comment: *Only 3% of the money in the UK economy, the £67bn, is actually cash. That means that the total amount of money in the UK economy to be about £2.2tn, with more than £2.1tn of this being numbers if computers.*
See VIDEO: Banking 101, part 3
http://www.positivemoney.org/how-money-works/banking-101-video-course/how-is-money-really-made-by-banks-banking-101-part-3/

1.7 It took 300 years to create the first trillion pounds, how long did it take to create the second trillion?

a) 8 months
b) 8 years
c) 80 years
d) 160 years

ANSWER: b) 8 years

Comment: *In 2001 the total amount of money in the UK economy was about £1tn, by 2009 this had expanded to more than £2tn.*

1.8 Who created most of this money?

a) The Government
b) Working People
c) The Commercial Banks
d) The Bank of England

ANSWER: c) The Commercial Banks

Comment: *As we will discover later in this quiz, it's actually commercial banks that have created most of this money and not, as many people think, the government or the Bank of England.*

1.9 The electronic money that the Bank of England creates is known as Central Bank Reserves; it's this money that commercial banks exchange between themselves to settle their accounts. Since the financial crisis the Bank of England has created more Central Bank Reserves through a process known as Quantitative Easing, but how much have they created?

a) £3.75bn
b) £37.5bn
c) £375bn
d) £3.75tn

ANSWER: c) £375bn

Comment: *In the process of Quantitative Easing, the Bank of England buys Government Bonds from the financial markets. This essentially injects money into those markets and, in principle, some of this money should then trickle down into the 'real' non-financial economy.*
See VIDEO: How to waste £375bn
http://www.positivemoney.org/videos/introduction/waste-375-billion-failure-quantitative-easing-video/
See POSTIVE MONEY WEB-SITE
http://www.positivemoney.org/how-money-works/advanced/how-quantitative-easing-works/

1.10 For every pound created through Quantitative Easing, how much does Positive Money estimate has actually reached the 'real' economy?

a) 68p
b) 32p
c) 8p
d) 5p

ANSWER: c) 8p

Comment: *Only 8% of all the money generated through Quantitative Easing, that's about £30bn, is estimated to have reached the 'real' economy. Meanwhile, the value of shares on the stock market increased by 20%.*
See VIDEO: How to waste £375bn
http://www.positivemoney.org/videos/introduction/waste-375-billion-failure-quantitative-easing-video/

Interest Rate for Bonus Question: If the money generated through Quantitative Easing was spent directly into the 'real' economy, for every pound spent how much does Positive Money estimate the economy would grow by?

a) 28p
b) £1.80
c) £2.80
d) £11.80

ANSWER: £2.80

Comment: *If the money from Quantitative Easing was spent into the 'real' economy, through public projects such as building schools or hospitals, it would get to real people through wages and then this would be spent again by those people benefitting others. It is estimated that this compounding effect would grow the economy by £2.80 for every £1 of money spent through QE.*
See VIDEO: How to waste £375bn
http://www.positivemoney.org/videos/introduction/waste-375-billion-failure-quantitative-easing-video/

PART TWO: HOW THE SYSTEM WORKS

2.1 What proportion of the adult population in the UK believes that banks simply 'hold on to any money deposited with them', like a commercial 'piggy bank'?

a) One tenth
b) One fifth
c) One quarter
d) One third

ANSWER: d) One third

Comment: *It's quite illuminating how many people believe that banks simply act as storehouse for money.*
See VIDEO: Banking 101, part 1
http://www.positivemoney.org/how-money-works/banking-101-video-course/misconceptions-around-banking-banking-101-part-1/

2.2 When you deposit some of your own money into a bank account, maybe your saving for holiday or simply keeping your money safe, who then legally owns that money?

ANSWER: The bank does

Comment: *Once you hand over your cash to the bank it's not yours anymore it's the banks. As such, they can pretty much do what they please with it. However, you do get something in return. The bank is obliged to give you a piece of paper, or a statement, which tells you how much they owe you. And, depending on the type of account you have, they are also be obliged to return that money to you, either on demand or possibly after some agreed period of time.*
See VIDEO: Banking 101, part 1
http://www.positivemoney.org/how-money-works/banking-101-video-course/misconceptions-around-banking-banking-101-part-1/

2.3 What term do bankers use to describe any deposits you might have with them?

a) Assets
b) Debts
c) Liabilities
d) Credits

ANSWER: Liabilities

Comment: Your bank statement will tell you that you have a deposit account and the amount that's in it, you would clearly regard this as an asset. However, the bankers look at things a little differently. They may now own your money, but they also know that they have promised to pay you back the money in that deposit account at some point in the future, so they refer to it as a 'Liability'.See VIDEO: Banking 101, Part 3
http://www.positivemoney.org/how-money-works/banking-101-video-course/how-is-money-really-made-by-banks-banking-101-part-3/

2.4 Most of the remaining members of the public believe that banks actually loan out any money that's deposited with them to other people or businesses. What term do bankers use to describe the loans that they make?

a) Assets
b) Debts
c) Liabilities
d) Credits

ANSWER: Assets

Comment: *If you take out a loan, you'll be given a statement telling you how much you owe. The*

banks see this as an asset because, even though they don't have the cash in a vault anymore, they do know that they should get this money back at some point in the future.
See VIDEO: Banking 101, Part 3
http://www.positivemoney.org/how-money-works/banking-101-video-course/how-is-money-really-made-by-banks-banking-101-part-3/

2.5 Economics students, and most other financially trained people, understand things slightly differently. They have been taught the money multiplier, or fractional reserve, model of banking. However, even though this model is still widely taught, it's not quite how the system works. Professor Charles Goodhart of the LSE, an adviser to the BoE, described this model as "such an incomplete way of describing the process of the determination of the stock of money that it amount to mis-instruction". When do you think he said this?

a) 2014
b) 2004
c) 1994
d) 1984

ANSWER: d) 1984

Comment: *Many textbooks still describe money creation and banking with this model, as do widely accessed public sources such as Wikipedia. Interestingly, Wikipedia has recently seen a dispute between editors of the money multiplier and fractional reserve pages and those who wish to update these pages to reflect how the system really works. However, Wikipedia's view is that their entries should reflect the 'text-book' thinking of a principle – right or wrong -, rather than the most up-to-date thinking. So the description of the system using the money multiplier model remains on Wikipedia.*
See DISPUTE
http://www.fractionalreserves.com/wiki_dispute.htm
See VIDEO: Banking 101, part 2
http://www.positivemoney.org/how-money-works/banking-101-video-course/whats-wrong-with-the-money-multiplier-model-banking-101-part-2/

2.6 To make a loan of £100,000, legally how much money does a bank need to have on deposit or keep in reserve?

a) £100,000
b) £50,000
c) £10,000
d) Nothing

ANSWER: d) Nothing

Comment: *There is no legal reserve ratio or fixed amount of deposits that a bank has to hold in order to make loans. It's for the banks themselves to determine what reserves they should hold in order to remain solvent.*
See VIDEO: Banking 101, Part 3
http://www.positivemoney.org/how-money-works/banking-101-video-course/how-is-money-really-made-by-banks-banking-101-part-3/
See VIDEO: Banking 101, Part 4
http://www.positivemoney.org/how-money-works/banking-101-video-course/how-much-money-can-banks-create-banking-101-part-4/

2.7 When you take out a loan the bank simply creates a balance sheet, on one side they put the amount you've borrowed, which you see as your loan account or your repayment schedule, and on the other side they put the amount they've given to you, which you see as money in your deposit account. What is this process called?

a) Magic
b) Double entry accounting
c) Fraud
d) Good practice

ANSWER: b) Double entry accounting

Comment: *Money created from nothing, this does sound like magic, possibly even fraud, but this is how the system works. When you take out a loan from the bank, no one checks to see if there's enough money in the vault - even the 'electronic' vault – someone simply types the numbers into your deposit account and you then have access to the money; they also type the same number into a loan account and you get a statement of how much you owe. To be fair, sometimes they also do check if you are likely to be able to repay the loan as well!*

See VIDEO: Banking 101, Part 3
http://www.positivemoney.org/how-money-works/banking-101-video-course/how-is-money-really-made-by-banks-banking-101-part-3/

See POSTIVE MONEY WEB-SITE
http://www.positivemoney.org/how-money-works/advanced/introduction-to-balance-sheets/

2.8 You borrow £100 from a bank, but you're not sure it's real money because you now know a little about where it's come from, what's the simplest method of testing out whether it's real or not?

ANSWER: Withdraw it from a cash machine

Comment: *It might be argued (and is) that the money created in deposit accounts, as a result of taking out a loan, doesn't really exist; it's just some credit and it's cancelled out by it's equivalent liability - basically it's just an artifact of the accounting method used. However, this argument is somewhat undermined if it can be demonstrated that this money can be used in the same way as cash. Even the Bank of England agrees that this credit is effectively new money in the economy, see the Bank of England's Quarterly Bulletin for Q1 this year.*

See VIDEO: Banking 101, Part 3
http://www.positivemoney.org/how-money-works/banking-101-video-course/how-is-money-really-made-by-banks-banking-101-part-3/

See VIDEO: Banking 101, Part 5
http://www.positivemoney.org/how-money-works/banking-101-video-course/do-banks-create-money-or-just-credit-banking-101-part-5/

See DOCUMENT: Bank of England Quarterly Bulletin, 2014 Q1
http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q1prereleasemoneyintro.pdf
http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014 qb14q1prereleasemoneycreation.pdf

2.9 How do the banks make any money through this process?

ANSWER: They charge interest on the loans they make

Comment: *Not only didn't they have the money to lend in the first place, they charge you interest for the privilege of giving it to you!*

See VIDEO: Banking 101, Part 3
http://www.positivemoney.org/how-money-works/banking-101-video-course/how-is-money-really-made-by-banks-banking-101-part-3/

2.10 When was the legislation passed that gave the commercial banks the power to create money through issuing debt in the form of loans?
ANSWER: There is no such legislation

Comment: *The government has never formally given this power to commercial banks and officially the government does not even recognise that commercial banks effectively have this power. However, recent briefing documents from the Bank of England do go some way to recognising this reality.*
See DOCUMENT: Money creation in the modern economy (BoE Publication)
http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q1prereleasemoneycreation.pdf

Interest Rate for Bonus Question: When the loan is repaid, what happens to the money?
ANSWER: It's destroyed.

Comment: *when a loan is fully re-paid the asset value of that loan to the bank disappears along with its associated liability. Of course, this isn't an instantaneous process, this happens slowly over time. As you repay the loan this simultaneously reduces the size of the liability and value of the asset until both disappear.*
See VIDEO: Banking 101, Part 6
http://www.positivemoney.org/how-money-works/banking-101-video-course/how-money-gets-destroyed-banking-101-part-6/

PART THREE: IMPACTS AND SOLUTIONS

HOUSE PRICES

3.1 Over the ten years prior to the financial crisis by how much did mortgage lending increase?

a) Two times
b) Three times
c) Four times
d) Five times

ANSWER: d) Five times

Comment: *Well almost, it increased by 370%, while house prices increased by 200%. These increases are often attributed to factors such as too many people wanting to buy in certain areas, too much immigration and too few new houses being built? But, to put this into perspective, over same period for every four new people, three new homes were actually built.*
See VIDEO: Why Are They So High
http://www.positivemoney.org/issues/house-prices/

3.2 In 1996, on average a first time buyer would spend 17.5% of their take home salary on their mortgage. What percentage of a first time buyer's take home salary was required by 2008?

a) 9.3%
b) 29.3%
c) 49.3%
d) 69.3%

ANSWER: c) 49.3%

Comment: *And in London the rise was from 22.2% to 66.6%.*
See POSTIVE MONEY WEB-SITE
http://www.positivemoney.org/issues/house-prices/

INEQUALITY

3.3 On average, the richest 10% of the population pay 1.4% of their income to the banks in interest. How much do the poorest 10% pay?

a) 1.4%
b) 6.4%
c) 9.4%
d) 18.4%

ANSWER: c) 9.4%

Comment: *In essence, this means there is a steady redistribution of wealth from the poorest people in the population to the richest. Mid-income people pay around 3.5% of their income in interest.*
See VIDEO: Why are the rich getting richer
http://www.positivemoney.org/issues/inequality/
See DOCUMENT: Banking, Finance and Income Inequality
https://www.positivemoney.org/wp-content/uploads/2013/10/Banking-Finance-and-Income-Inequality.pdf

DEMOCRACY

3.4 In a recent Positive Money poll of 100 MPs, what percentage said that the following statement was true: "Only the government – via the Bank of England or Royal Mint – has the authority to create money, including coins, notes and the electronic money in your bank account."?

a) 91%
b) 71%
c) 51%
d) 31%

ANSWER: b) 71%

Comment: *The vast majority of MPs don't understand that commercial banks also have the ability to effectively create money through the issuing of debt. Only one in five MPs knew that this statement was false.*
See POSTIVE MONEY WEB-SITE
http://www.positivemoney.org/2014/08/7-10-mps-dont-know-creates-money-uk/

3.5 Between 2003 and 2008, 646 MPs elected by more than 24m voters, oversaw government spending of £2.1tn. Over the same period the five largest UK banks created £2.9tn through issuing debt. The key decisions about how much debt to issue are taken by the board members of these banks. How many of them were there?

a) 780
b) 156
c) 78
d) 16

ANSWER: c) There were 78 board members across the 5 largest banks over this period.

Comment: *These board members are not directly accountable to parliament, they have not been elected by popular vote and they are certainly not a representative cross-section of the British population. They are accountable to the bank's share-holders, the vast majority of whom simply want the bank to make as much money as possible.*
See VIDEO: The Power of Banks vs Democracy
http://www.positivemoney.org/issues/democracy/

RECESSIONS AND CRISIS, JOBS AND BUSINESSES

3.6 Excluding property, what proportion of the money that banks created do you think Positive Money have estimated actually went into businesses outside the financial sector, what commentators often refer to as the 'real' economy?

a) 64%
b) 32%
c) 16%
d) 8%

ANSWER: c) 16%

Comment: *Even when we exclude property from the numbers, which accounts for 51% of the money created, less than one-fifth of the remaining money that is created gets into the real economy. This means that the vast majority of the money in the UK economy is either trapped in property or used for speculation in the financial markets.*
See POSTIVE MONEY WEB-SITE
http://www.positivemoney.org/issues/recessions-crisis/
http://www.positivemoney.org/issues/jobs-business/

3.7 In 2013, who said: "The financial crisis of 2007 to 2008 occurred because we failed to constrain the financial system's creation of private credit and money."

a) Gordon Brown (former PM and Chancellor);
b) Lord Adair Turner (former Chair of the Financial Services Authority);
c) George Osbourne (the current Chancellor); or,
d) Mark Carney (the current Governor of the Bank of England)

ANSWER: b) Lord Adair Turner

Comment: *Even members of the financial establishment are now starting to recognise that negative impact of uncontrolled money creation.*
See POSTIVE MONEY WEB-SITE
http://www.positivemoney.org/issues/recessions-crisis/

A POSSIBLE SOLUTION

3.8 Is it possible to take the power to create money away from the commercial banks?

ANSWER: Yes

Comment: *It is and it's been done before in 1844, as we heard earlier in the quiz.*
See POSTIVE MONEY WEB-SITE
http://www.positivemoney.org/how-money-works/how-did-we-end-up-here/

3.9 Who do think that Positive Money recommends to be given the power to create money?

a) The Prime Minister
b) Parliament
c) An independent committee
d) Russell Brand, campaigning comedian

ANSWER: An independent committee

Comment: *This independent committee would by accountable to parliament, but protected from the influence of vested parties. It might work within broad guidelines, similarly to the Bank of England's Monetary Policy Committee which sets interest rates at the moment. However it works, this body would ensure that the right amount of money was available in the economy, not too much as this might create a bubble and not too little which might cause a recession.*
See VIDEO: Could These 3 Simple Changes Fix The Economy?
http://www.positivemoney.org/our-proposals/

3.10 Is it possible to create the necessary legislation to have debt-free money?

ANSWER: Yes, a draft version of this legislation already exists

Comment: *Positive money are as much about proposing possible solutions to the shortcomings in the current monetary system as are about raising awareness of these shortcomings.*
See POSTIVE MONEY WEB-SITE
http://www.positivemoney.org/our-proposals/draft-legislation/

PUBLIC SPENDING

Interest Rate for Bonus Question: The UK population pay £192m in interest everyday to the banks, how much have we had to pay since the start of this quiz?
Answer: £192m/day is £8m per hour

Comment: *This will increase as the national debt continues to rise. Because, although the current government have reduced the deficit, this simply means that the rate at which the national debt is going up is now less, but it's still going up. The government still spends more than in collects in taxes – if only the government had collected the £1tn in Seiniorage for all the money created in the 8 years before the financial crisis!*
See POSTIVE MONEY WEB-SITE
http://www.positivemoney.org/issues/taxes/

Positive Money
205 Davina House
137-149 Goswell Road
London
EC1V 7ET

Tel: +44 (0)207 253 3235

info@positivemoney.org

www.positivemoney.org

PositiveMoney

Positive Money is a not-for-profit company limited by guarantee, registered in England and Wales.
Company number 07253015