Illustration of Macroeconomic Processes in National Accounts

1. The elementary monetary circuit
2. Generating profit I
3. Generating profit II
4. Sequence of Accounts
The elementary money circuit
The elementary money circuit in detail
The elementary money circuit in detail
The elementary money circuit in detail
Generating profit I
How can profit be generated?

Gross Domestic Product at current prices: 125 MU

Compensation of employees: 100 MU
Operating Surplus (Profit): 25 MU

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Generating Profit II
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Balance sheet

100 RE  100 OF

RE = Real Estate
OF = Own Funds

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Banking System

Landlord

Investor A

Balance sheet
100 RE
RE = Real Estate

Balance sheet
100 OF
OF = Own Funds

Balance sheet
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Banking System

Landlord

Investor A

20 Gold

200 MU

Balance sheet

100 RE
100 OF

Balance sheet

20 G
20 OF

Balance sheet

OF = Own Funds
L = Loan
G = Gold
MU = Money Units

RE = Real Estate
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Banking System

Landlord

Investor A

20 Gold

200 MU

Balance sheet

Banking System

Landlord

Investor A

20 G
180 L

200 MU
100 RE
100 OF

200 MU
20 OF

180 L

RE = Real Estate
OF = Own Funds
L = Loan
G = Gold
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Banking System

Landlord

Investor A

20 Gold

200 MU

200 RE

200 MU

Balance sheet

20 G 200 MU
180 L

RE = Real Estate

Balance sheet

100 RE 100 OF

200 MU 20 OF

180 L

OF = Own Funds

L = Loan

G = Gold

MU = Money Units

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Balance sheet

<table>
<thead>
<tr>
<th>Banking System</th>
<th>Landlord</th>
<th>Investor A</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 Gold</td>
<td>200 MU</td>
<td>200 RE</td>
</tr>
</tbody>
</table>

Balance sheet

<table>
<thead>
<tr>
<th>20 G</th>
<th>200 MU</th>
<th>100 OF +100 Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>180 L</td>
<td></td>
<td>= 200 OF</td>
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</table>

OF = Own Funds  
L = Loan  
G = Gold  
MU = Money Units

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Balance sheet

Banking System

20 G  200 MU
180 L

Landlord

200 MU

Investor A

100 OF
+100 Profit
= 200 OF

200 RE

200 MU

Investor B

400 MU

40 Gold

20 Gold

200 MU

200 OF

180 L

OF = Own Funds

RE = Real Estate

G = Gold

L = Loan

MU = Money Units

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Banking System

Landlord

Investor A

Investor B

Balance sheet

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<td>= 200 OF</td>
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Balance sheet

<table>
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<th>RE = Real Estate</th>
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<tbody>
<tr>
<td>200 MU</td>
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<tr>
<td>200 RE</td>
</tr>
<tr>
<td>20 OF</td>
</tr>
<tr>
<td>180 L</td>
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Balance sheet

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<td>40 G</td>
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Balance sheet

<table>
<thead>
<tr>
<th>OF = Own Funds</th>
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<tr>
<td>40 OF</td>
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</tbody>
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L = Loan

MU = Money Units

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Banking System

Landlord

Investor A

Investor B

20 Gold

40 Gold

200 MU

200 RE

200 MU

400 MU

200 MU

400 MU

400 MU

60 G

600 MU

200 MU

100 OF

+100 Profit

= 200 OF

200 RE

20 OF

180 L

400 MU

40 OF

360 L

Balance sheet

Balance sheet

Balance sheet

Balance sheet

RE = Real Estate

OF = Own Funds

L = Loan

G = Gold

MU = Money Units

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Banking System

Landlord

Investor A

Investor B

20 Gold

40 Gold

200 MU

200 RE

400 MU

400 RE

400 MU

200 MU

400 MU

Balance sheet

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<td>400 RE</td>
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<tr>
<td>540 L</td>
<td>200 MU</td>
<td>100 OF</td>
<td>400 MU</td>
<td>40 OF</td>
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<td>+200 Profit</td>
<td>= 220 OF</td>
<td>= 360 L</td>
</tr>
<tr>
<td></td>
<td>= 200 OF</td>
<td>= 220 OF</td>
<td>180 L</td>
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A real estate bubble

Banking System

Landlord

Investor A

Investor B

Balance sheet

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<th>600 MU</th>
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Balance sheet

<table>
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<th>200 MU</th>
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<tbody>
<tr>
<td>100 OF +100 Profit</td>
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<tr>
<td>= 200 OF</td>
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Balance sheet

<table>
<thead>
<tr>
<th>400 MU</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 OF +200 Profit</td>
</tr>
<tr>
<td>= 220 OF</td>
</tr>
<tr>
<td>180 L</td>
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</tbody>
</table>

Balance sheet

<table>
<thead>
<tr>
<th>400 RE</th>
</tr>
</thead>
<tbody>
<tr>
<td>40 OF</td>
</tr>
<tr>
<td>360 L</td>
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</tbody>
</table>

RE = Real Estate

OF = Own Funds

L = Loan

G = Gold

MU = Money Units
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Banking System

Landlord

Investor A

Investor B

Balance sheet

40 G 400 MU
360 L

200 MU 100 OF +100 Profit = 200 OF

20 G 200 MU
20 OF +200 Profit = 220 OF

400 RE
40 OF
360 L

RE = Real Estate
OF = Own Funds
L = Loan
G = Gold
MU = Money Units

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Banking System

Landlord

Investor A

Investor B

Investor C

Balance sheet

Balance sheet

Balance sheet

Balance sheet

Balance sheet

40 G 400 MU
360 L

200 MU

100 OF +100 Profit = 200 OF

20 G 200 MU

20 OF +200 Profit = 220 OF

400 RE

40 OF 360 L

80 G 80 OF

RE = Real Estate

OF = Own Funds

L = Loan

G = Gold

MU = Money Units

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Banking System → Landlord → Investor A → Investor B → Investor C

Balance sheet

120 G 1200 MU 200 MU 100 OF 200 MU 20 OF 400 RE 40 OF 800 MU 80 OF
1080 L OF = Own Funds = 200 OF +200 Profit = 220 OF +100 Profit 360 L 720 L

RE = Real Estate
G = Gold
L = Loan
MU = Money Units

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Banking System

Landlord

Investor A

Investor B

Investor C

Balance sheet

120 G

1200 MU

200 RE

200 MU

200 OF

2000 MU

100 OF

+100 Profit

= 200 OF

200 OF

200 OF

+200 Profit

= 220 OF

20 G

1000 MU

400 RE

400 MU

800 MU

40 OF

+400 Profit

= 440 OF

360 L

800 RE

800 RE

80 RE

80 OF

720 L

G = Gold

MU = Money Units

RE = Real Estate

OF = Own Funds

L = Loan

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Banking System

Landlord

Investor A

Investor B

Investor C

Balance sheet

Balance sheet

Balance sheet

Balance sheet

Balance sheet

80 G
720 L

800 MU

200 MU

100 OF
+100 Profit
= 200 OF

200 MU

20 G

20 OF
+200 Profit
400 MU
= 220 OF

400 MU

40 G

40 OF
+400 Profit
720 L
= 440 OF

800 MU

800 RE

80 OF

MU = Money Units

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SeQuence of Accounts
Gross Domestic Product at current prices: 125 MU

Compensation of employees: 100 MU

Operating Surplus (Profit): 25 MU

Banking System

Closing Balance Sheet

80 G 720 L
800 MU 200
Landlord
200 Investor A
400 Investor B

Opening Balance Sheet

Revaluation
Employees

Employer

Landlord
100 RE 100 OF +100

200 MU 200 OF

Investor A
20 G 20 OF +200

20 G 220 OF 200 MU

Investor B
40 G 40 OF +400

40 G 440 OF 400 MU

Investor C
80 G 80 OF

800 RE 80 OF 720 L
Gross Domestic Product at current prices: 125 MU

Compensation of employees: 100 MU

Operating Surplus (Profit): 25 MU

Closing Balance Sheet

<table>
<thead>
<tr>
<th>Opening Balance Sheet</th>
<th>Revaluation</th>
<th>Closing Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td></td>
<td>50 MU 50 OF</td>
</tr>
<tr>
<td>Employer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Landlord</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100 RE 100 OF</td>
<td>+100</td>
<td>185 185 OF</td>
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<td>20 G 20 OF</td>
<td>+200</td>
<td>20 G 205 OF</td>
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<td>40 G 40 OF</td>
<td>+400</td>
<td>40 G 420 OF</td>
</tr>
<tr>
<td>80 G 80 OF</td>
<td></td>
<td>800 RE 80 OF 720 L</td>
</tr>
</tbody>
</table>

Banking System

Closing Balance Sheet

| 80 G 720 L | 800 MU 50 |
| 100 Employees | 100 Investor A | 380 Investor B |
| 20 G 20 OF | +200 |
| 40 G 40 OF | +400 |
| 80 G 80 OF |             | 800 RE 80 OF 720 L |
„Ferner war es problematisch, dass komplexe Produkte (CDOs mit Exposures auf zweitrangige Kredite) hemmungslos als Sicherheiten in Repogeschäfte eingebracht wurden.“


Wirtschaftsblatt (Österreich), on-line Ausgabe vom 8.7.2008
The Wall Street Money Machine

Source: Pro Publica 2011
Related story: Banks’ Self-Dealing Super-Charged Financial Crisis

Source: Pro Publica 2011
Thetica Systems