Study Questions for:

#'s 1 – 3. Bartalomo is a travelling merchant who lives in Alicante, Spain. Bartalomo wishes to travel to Cyprus and buy 4,000 Croats (a coin used in both Alicante and Cyprus) of oranges.

Darius is a banker/merchant who lives in Alicante, Spain. Darius has an account with Cleo of Cyprus and vice versa.

1. _____ If usury, including writing bills of exchange for profit, is banned in Alicante, will Darius likely write a bill of exchange for Bartalomo?
   a. No.
   b. Yes, but only if Darius and Bartalomo are related or in a partnership.
   c. Yes, even if Darius and Bartalomo are not related nor in a partnership.

2. _____ Alicante switched between Muslim rule and Christian rule in the Middle Ages. Assume Darius and Bartalomo have never met before (although Bartalomo knows Darius has been a reliable merchant/banker). In which case is Darius more likely to write a bill of exchange for Bartalomo?
   a. Alicante is under Christian rule.
   b. Alicante is under Muslim rule.
   c. Alicante is ruled by both FC Barcelona and Real Madrid.

3. Again, assume Darius and Bartalomo have never met before (although Bartalomo knows Darius has been a reliable merchant/banker). Darius agrees to write a bill of exchange for Bartalomo because Darius finds it both profitable and legal. The bill of exchange will result in Bartalomo getting 4,000 Croats in Cyprus. Below, draw a picture of both: what the (3 party) bill of exchange will look like, and the transactions. Do **not** use exchange rates to make the bill of exchange profitable for Darius.
4. Jamie has $1,000 he would gladly lend to Jill for a year if he could charge a 10% interest rate ($100). Jill would gladly borrow the $1,000 from Jamie and pay a 10% interest rate ($100). Unfortunately, Jamie and Jill both live in a country in which lending at interest is banned. Is there any way these two can get around usury bans? Briefly describe two ways in which they can make the transaction (Jamie gives Jill $1,000 today and Jill repays $1,100 in one year) without “charging interest”.

5. _____ When a society uses methods, such as those you described in # 4, to get around usury bans:
   a. more borrowing and lending takes place as there would be if no usury ban existed.
   b. the same amount of borrowing and lending takes place as there would be if no usury ban existed.
   c. less borrowing and lending takes place as there would be if no usury ban existed.

6. Jared Rubin is about to give a talk outlining his explanation as to why, during the late Middle Ages, the Islamic world banned usury while western Europe relaxed usury bans. What will he say? Check each and every argument Rubin gives in his explanation of why the Islamic world continued to ban usury. Only check the arguments that Rubin believes have merit. Don’t forget, there is more than one way to say the same thing.
   a. In Islam religious thought usury was considered bad. In Western Christendom, usury was considered to be perfectly acceptable.
   b. In the Islamic world, religious and secular law were (mostly) one and the same. In Western Europe, there was greater separation between religious and secular law.
   c. Written contracts were not enforced in the Muslim world. In Western Europe, written contracts were almost always enforced.
   d. In the Islamic world, secular rulers needed the backing of religious authorities to rule effectively. In Western Europe secular rulers were more independent of the church.
   e. In the Islamic world, Jews were not tolerated. In Western Europe, there was great toleration of Jews. Since Jews were willing to lend at interest, Western Europe never had an effective usury ban.
7. _____ Why, according to Rubin (and Lovett), were secular and religious law largely separate in Christian West? In the early days of Christianity:
   a. blah
   b. blah
   c. blah

8. _____ Why, according to Rubin (and Lovett) were secular and religious law largely one and the same in the Muslim world? In the early days of Islam:
   a. blah
   b. blah
   c. blah

9. Francine is a drug runner who wants to travel from San Francisco to Tokyo, Japan and buy 500,000,000 ¥ of “candied crickets”, a popular street drug. She wants to get a bill of exchange for 500,000,000 ¥.

   Bob lives in San Francisco, has an account with Masatoshi in Tokyo. Bob regularly writes bills of exchange drawn on his account in Tokyo. In this case, Bob would provide Francine with a bill of exchange if he could charge her interest. When Bob and Masatoshi make transfers between their accounts, they use the most common market exchange rate. Currently, the common market exchange rate is $1 = 100 Yen (¥).

   Unfortunately for Francine, the state of California has banned usury (but made candied crickets legal).

   Show how Bob could write a bill of exchange for Francine and (Bob) still makes money, without charging any interest.

   Hint 1: Write out the bill of exchange (for 500,000,000 ¥ in Tokyo)

   Hint 2: Play with the exchange rate.

   Hint 3: Show how Bob makes money.
#'s 10 – 11: Here are two questions I should have included with the Champagne Fair study questions.

10. _____ Kelly banks at Frost Bank. She writes a check for $200 to Manuel. Manuel deposits the check in his bank account at Wells Fargo Bank. How does the money get transferred from Frost Bank to Wells Fargo Bank? How does the check go the other way, from Wells Fargo Bank to Frost Bank?
   
   a. blah
   
   b. blah
   
   c. blah

11. _____ What is another clearing house (in addition to the answer for # 10) that will clear financial instruments between large banks in the United States? The abbreviation (or acronym) will work just fine.
   
   a. blah
   
   b. blah
   
   c. blah