

**Business Finance II – 515 - Summer 2016**  
**Book Review Template**

Participants' Names & ERP:

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<b>Book Title</b>	Alchemists – Three Central Bankers and A World On Fire.
<b>Author(s)</b>	Neil Irwin
<b>Publisher &amp; Publishing Year</b>	Penguin Books, 2013

**Author (s):**

Neil Irwin is an economic correspondent at NY Times. His writing mainly focused on economics, finance and politics. However, besides these he has also written on sports and food fads. Irwin holds MBA from University of Columbia and his undergraduate studies were at St. Mary's College of Maryland. He has also served on the board of trustees of St. Mary's college from 2007 to 2013. His book "Alchemists" was his first literary work and became New York Times Bestseller and was short-listed for the Goldman-Sachs Financial Times Business Book of the year award.

**Synopsis of the book:**

The name 'Alchemist' is used for the central bankers who create and destroy money and economic policy. What do alchemists have to do with Central bankers? Alchemists were the predecessors of modern day chemists in the middle ages. The alchemists believe that they could make precious metals – for example: Gold, Silver etc. - through different chemical processes. Though the method was never discovered and it remained a myth for a very long time, however, many individuals throughout the course of human history attempted to come up with a way to create precious metals. In this book the author calls central bankers modern day alchemist as their power and actions determines the course of world economy.

The book talks about how central bankers hold sway over world economic policy and the money markets throughout the world. Whatever, their prejudices, central bankers all have an awesome power: the ability to create and destroy money out of thin air.

Why is a piece of paper with a leader's face on it worth 100 rupees. Why can this piece of paper be exchanged for a lunch at IBA cafeteria or an air fare to travel around the world because the governor State Bank of Pakistan says so. Governments around the world empower these individuals with a special power to control their economies and demand prosperity and economic stability from these individuals in return. Central bankers around the world determine whether nation's savings are secured, whether people get jobs and whether a nation's going to prosper or fail.

The book gives an insight on the creation of central banks throughout the financial capitals and their purpose to complement global economic and political policy. It also sheds light on financial crises that have occurred since the creation of the first central bank to date and its impact on the world.

From Johan Palmstruch in Sweden (the first central banker) through the early 20<sup>th</sup> century world war banking and failures to modern day central bankers like Ben Bernanke the author covers it all.

**Key Learning:**

- The history of banking in throughout the world; it was quite fascinating how the paper currency developed by a guy who had a criminal past and also died a criminal.
- The need for central banking throughout the world for political and economic stability. Many European nations were able to colonize and expand their economies because of a strong banking system.
- How banks were used to fuel World War 1 and 2 and how they helped to finance the war effort for their countries.
- How the same method that was used by Bank of England in 1866 to resolve the banking crisis in England repeated 150 years later by Ben Bernanke, Jean Claude Trichet and Mervyn King to resolve the financial unrest in 2007.
- The role and importance of the central banker as a lender of last resort, to create and destroy money.
- How banking begets economic chaos throughout the economy.
- How hyperinflation is devastating for any economy.

**Application:**

The Governor State Bank in Pakistan acts as a central banker for Pakistan and he determines the supply and circulation of money in Pakistani economy. He holds power to create or destroy money at a whim. The State bank of Pakistan has been entrusted to ensure monetary stability in the country to foster growth and complete utilization of national resources. However, its role as a lender of last resort has not been put to use due to our much reliance on foreign aid as last resort. With credit line getting tighter and the global shrink in economy; credit becomes costlier and lenders demand regular payments to pay off national debt. This puts much pressure on the central bank to keep economy afloat under all circumstances to ensure economic stability.

In 2005 the Islamic banking and insurance industry of Pakistan was under scrutiny by the State bank of Pakistan which reviewed the Shariah-compliance for both banking as well as insurance companies to prevent risk of financial loss to Islamic banking consumers.

**Grading Plan:**

Areas	Marks
Author	1
Synopsis	2
Key learning	5
Application	2