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IIPPE Conference, Financialisation WG Abstract Submission

1 message

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Reply-To: Duncan Lindo <duncanlindo@yahoo.co.uk>

To: "serdar_sengul@soas.ac.uk" <serdar_sengul@soas.ac.uk>

Hi

Please find below my response to the Financialisation WG, IIPPE conference call for papers.

If you require any other information please feel free to email me.

Many thanks

Cheers, Duncan

Banks and Derivatives: Making Markets for themselves

Derivatives form a critical element of financialisation, this paper seeks some understanding into these markets. Banks as dealers are central to derivative markets, most evidently by acting as one counterpart to every over-the-counter derivative transaction. Dealer banks make markets in two senses: by standing ready to buy and sell, and by providing the infrastructure of the markets. The first step to understanding derivative markets therefore, to make these markets in theory as banks make them in practice, is to understand why it is specifically banks that are central to these markets. Marxist political economy provides the basis for a theory of banks which addresses their process of development, their emergence as specialists and their adoption of new business lines, most importantly here derivatives dealing. Such a theory can tell us "why banks?" and addresses their source of profit in standing ready to buy and sell. This economic motivation also informs the second aspect of their market making: their provision of the infrastructure of the market. Thus, for example, investigation of the use of derivative valuation models, of bank regulation, of the creation of the trading instrument itself, is enhanced by understanding first, that it is banks that "make" these elements of the market, and second, their specific motivations in doing so.