UNDERSTANDING THE MONETARY PYRAMID

Introduction

The monetary pyramid is a conceptual model used to illustrate the hierarchy of financial assets based on their perceived stability and risk.

It provides a framework for understanding how different forms of money and assets relate to one another.

What This Means

At the top of the pyramid are assets considered to have the least counterparty risk.

At lower levels are assets that depend increasingly on financial institutions, credit systems, or contractual obligations.

Gold is often positioned near the top due to its status as a non-liability asset.

How It's Typically Evaluated

The pyramid is often evaluated through:

- levels of counterparty risk
- degree of reliance on financial systems
- liquidity and accessibility
- historical role of assets within monetary systems

This helps distinguish between different types of financial exposure.

How It Works in Practice

A simplified view of the pyramid may include:

- Top Tier — physical gold and base reserves
- Middle Layers — currencies and bank deposits
- Lower Layers — credit instruments, derivatives, and leveraged assets

As one moves down the pyramid, assets typically involve greater dependency on counterparties.

Where Differences Become Important

The distinctions become more relevant when evaluating:

- asset stability under varying conditions
- exposure to financial system risk
- how assets behave during periods of stress

The framework provides context rather than prediction.

Considerations

The monetary pyramid is not a fixed rule, but a way to understand relationships between asset types.

It is often used to provide perspective on how different assets function within the broader system.

Summary

The monetary pyramid illustrates how financial assets are layered based on risk and dependency, with physical metals often positioned near the top.

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