

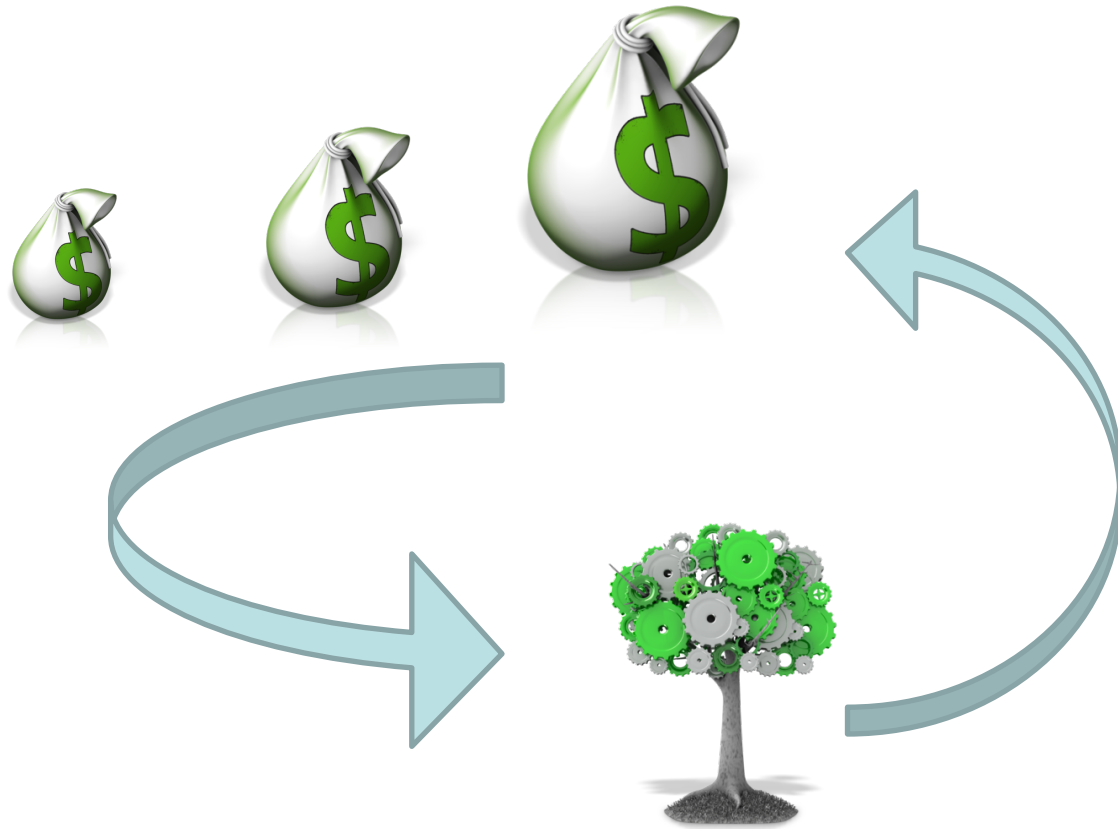
Decentralized Finance

Traditional Finance

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The Finance Problem



1. Personal Investment: Build wealth across time and for different possible circumstances (states)
2. Business Investment: Provide entrepreneurs and firms with resources to invest in productive activities.

Goal: Allocate all resources efficiently across **time** and **states of the world**

Properties of Financial Assets

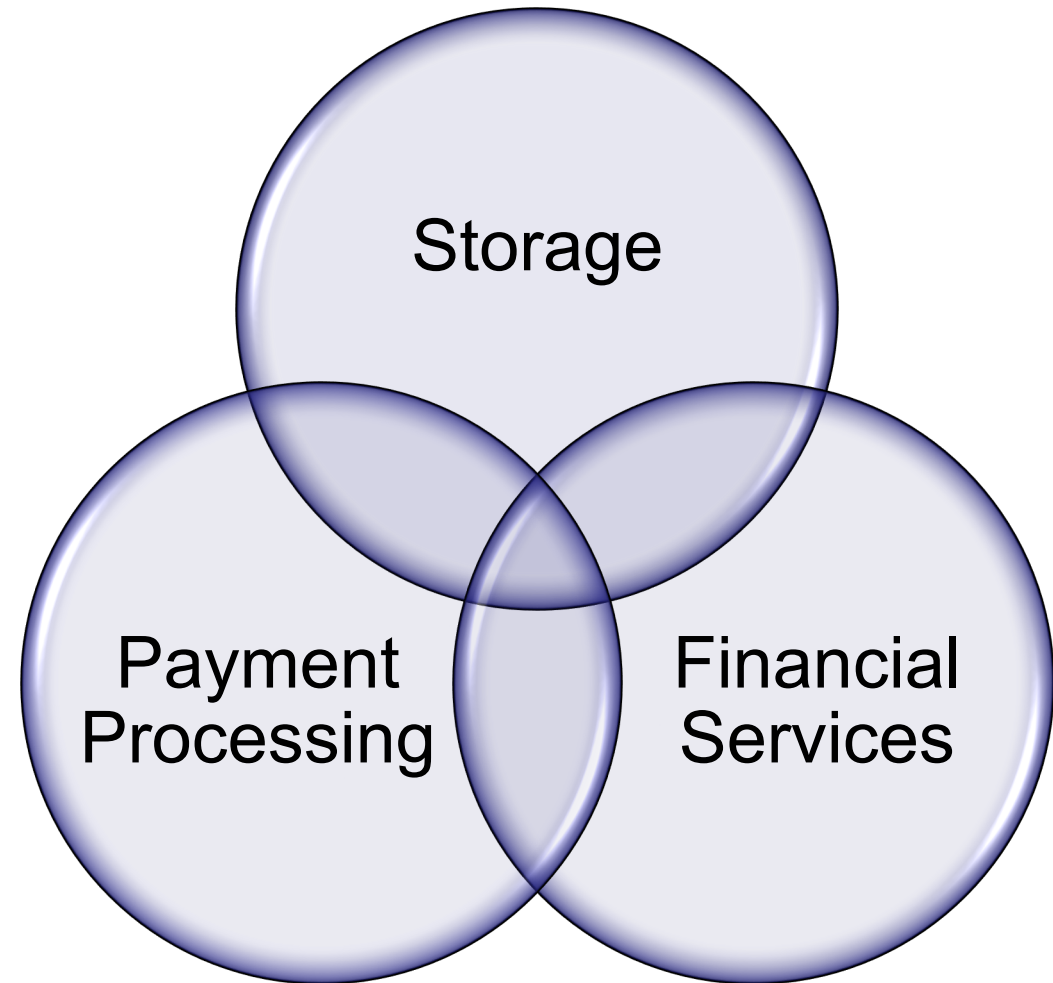
- Financial Assets are composable “Value Additivity”
- How you divide/add up assets does not affect their value.



- Some assets also embed other parts of the financial system.

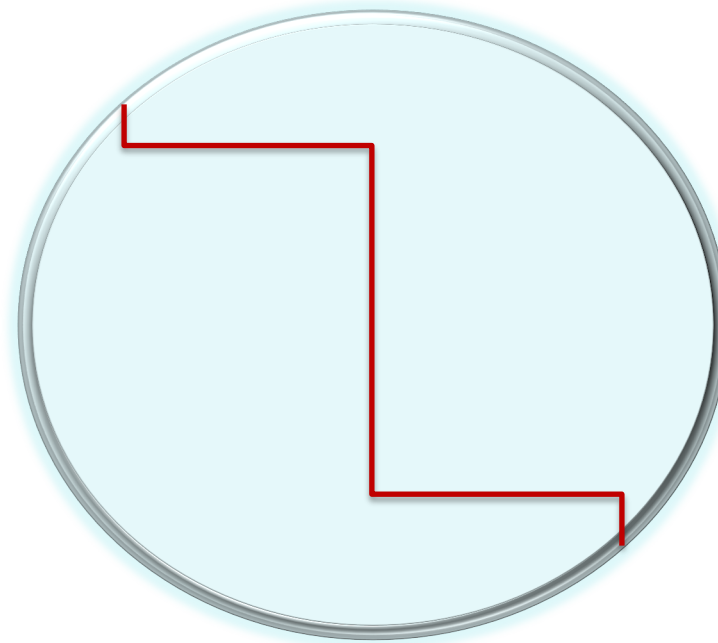
Organization of Financial Firms

- Banks provide a bundle of services
- Organized this way for historical reasons
- No economic reason why these services should be bundled.
- Benefit of bundling to regulators: one entity is easier to regulate.



Cost sources in TradFi

Regulations designed
to make
everyone better off



The firms, instruments
evolved over time and
are not optimally
designed for the current
economy