

1) Discuss the early history of equity capital organization, from ancient times to the beginning of the 17th century. Be sure to discuss: the legal and commercial framework; and the role of religion in determining the method of equity security contracting.

In ancient times equity capital was structured around kinship and partnerships to combine capital. Partnerships between kin provided a solution to equity capital issues like the threat of confiscation and failure to obtain payment. In Assur, trading contracts called *Naruqqum* went beyond kinship and defined terms of settlement, dividends, profit, and fines for premature withdrawal of capital.

Ancient laws condemned interest like the *Code of Hammurabi* fixed the maximum interest rate and *Lex Genucia* (322 BC) completely forbid lending at interest. In 324 BC, Constantine I established Christianity the state religion which led to the development of scholastic and usury doctrine. Under canon law, *usury*¹ became illegal. However, the Roman partnerships called '*societas*' and barter arrangements called '*census*' were licit and became the main equity structures of Medieval and Renaissance periods.

As the Italian sea-borne trade rose, it required immense capital investment. An arrangement similar to a joint-stock company called *societas maris*, the *commenda* was used to raise capital. As trade grew, partnership structures became complicated evident from Francesco Dantini's series of *interlocking partnerships*. Eventually, scholastic doctrine permitted usury in special cases² like the bill of exchange, which became the popular technique for short-term borrowings. This increased exchange of foreign currency and trade contracts led to the establishment of exchanges like the Antwerp Exchange which became the center of equity trading in the 16th century.

Early 17th century saw the rise of joint-stock companies like the Dutch East India Company (VOC) which capital associations of a corporate character. Public trading in VOC company shares began immediately providing VOC shares with ready transferability. It became the trusted dividend stream for a century.

¹ Lending money at interest

² Like *Damnum emergens* (loss to the lender), *lucrum cessans* (profit ceasing) and *poena* (penalty for late return), *montes* (payment on debt raised by the government)