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## **FINANCIAL PYRAMIDS**

The purpose of this study is the consideration of the concept and signs of financial pyramid.

Due to the fact that in our country the legislative regulation of the creation and operation such structure as the financial pyramid is poorly developed, there are no corresponding norms there is a danger to society and entrepreneurship. That is why this is an actual problem today. The practical meaning of my report lies in eliminating low level of financial literacy of the population and reducing the effects of poor information support.

The financial pyramid is a scheme created for extracting income by attracting more and more new participants [1]. The first structure appeared in 1919. The creator of the project was the American Charles Ponzi [3]. The largest and most notorious financial pyramid many considered ISC «MMM» (1994). The organizer of the project is Sergei Mavrodi. The investigation recognized as victims more than 10 thousand people, however, according to indirect estimates of experts, about 10 million people suffered. Today financial pyramids are banned in many states.

Contributions to a financial pyramid are never invested anywhere. They are sent to pay rewards to the top levels of the participants. Sometimes those who enters this scheme in the early stages and then withdraw their funds in time, make profit. Sooner or later, the influx of new investors is drying up and at this point it is not possible to make payments to the participants of the pyramid. The pyramid collapses. The risk of losing funds invested in the scheme is always very high.

The principle of the financial pyramid has three or more classical stages. Let's take an example. The first level. The organizer urges to join the pyramid three participants. At the same time he takes from them \$50 as an entrance fee and

promises to pay \$15 for each new member. The income of the organizer is \$150. Costs are \$0. The second level. The participants of the first level attracted to the pyramid also three investors on the same conditions. Income of the second level stage is \$450. Costs are \$135. Net profit of the organizer is \$315. The third level. All participants of the third level enter into the pyramid three new contributors on the same conditions. Income of the third level stage is \$1350. Costs are \$405. Net profit of the organizer is \$945. Total net profit is \$1410. Detailed calculations are shown in the table №1.

When the influx of new participants (and hence the cash!) is drying up the organizer disappear with the money. Those who entered the pyramid at the last stage are lost with nothing.

Indicator	Calculation
<b>The first level</b>	
Total income	3 investors * \$50 = \$150
Costs	\$0
Net profit	\$150
<b>The second level</b>	
Total income	3 old investors * 3 new investors = 9 new investors 9 investors * \$50 = \$450
Costs	\$15 * 3 old investors * 3 new investors = \$135
Net profit	\$450 - \$135 = \$315
<b>The third level</b>	
Total income	9 old investors * 3 new investors = 27 new investors 27 investors * \$50 = \$1350
Costs	\$15 * 9 old investors * 3 new investors = \$405
Net profit	\$1350 - \$405 = \$945
Total net profit	\$150 from the 1 <sup>th</sup> level + \$315 from the 2 <sup>nd</sup> level + \$945 from the 3 <sup>rd</sup> level = \$1410

Table №1 Calculation the Organizer's Total Net Profit

Signs of the financial pyramid [2]:

- 1) Unreal high promised income more than 25-35 % per year.
- 2) The scheme of payment of income is blurred, that is promised income can be obtained by fulfilling certain conditions with lot of items.
- 3) Guaranteed income low risks. None of the real methods of investments can guarantee the investor income.
- 4) Incomes to depositors are paid due to new company members.

- 5) Forcing to periodic contributions or to buy unnecessary goods of the company at too high price. These products should not be confused with network marketing products! Network marketing is a legitimate activity for moving real goods with specific functions and properties to meet consumer needs from producers to real consumers. In such structures the income of each participant depends on the quantity of goods to be able to realize.
- 6) Continuous motivation with psychological pressure and calls to hasten to invest.
- 7) The advertisement does not contain specific information. You can find it only in video presentations, video messages, recordings of meetings and seminars.
- 8) Anonymity. Information about the creators is not spread anywhere.
- 9) Reference in the contract to the absence of the company's obligation to return the funds invested in. Investments are called as «donations», «voluntary contributions».
- 10) A company is registered abroad, usually offshore.
- 11) There are no licenses for financial activities.
- 12) Prohibition of the disclosure of trade secrets.

Results. Most people want to get rich without doing anything for it. They are ready to invest in any projects that promise unprecedented profits. In any case, it is useful for each to know which signs point to pyramid schemes. This article was written precisely to acquaint people with the phenomenon and protect them from it.

#### REFERENCES

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