

# [Fraudulent investment operation of ponzi scheme](https://assignbuster.com/fraudulent-investment-operation-of-ponzi-scheme/)

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Introduction A Ponzi scheme is a fraudulent investment operation that pays returns to its investors from their ownmoneyor the money paid by subsequent investors, rather than from profit earned by the individual or organization running the operation. Objectives We learn how it started. We learn the key elements in running a Ponzi scheme. We learn how big a Ponzi schemes can get. We learn how a Ponzi scheme falls apart. We learn how to identify and avoid being involved in a Ponzi scheme. Methodology- This topic is from a secondary source. The scheme is named after Charles Ponzi, who became notorious for using the echnique in 1920.

Ponzi did not invent the scheme (for example, Charles Dickens' 1844 novel Martin Chuzzlewit and 1857 novel Little Dorrit each described such a scheme), but his operation took in so much money that it was the first to become known throughout the United States. Five Key Elements in running a Ponzi Scheme: 1) The Benefit: A promise that the investment will achieve an above normal rate of return. The rate of return is often specified. The promised rate of return has to be high enough to be worthwhile to the investor but not so high as to be unbelievable.

Madoff, that had a great deal of credibility as he had been in the investment business since 1960. Madoff had also been the chairman of the board of directors of NASDAQ, an American stock exchange. The estimated losses from the Ponzi scheme are in between 34 and 50 billion U. S. dollars. Unravelling / Fallout of a Ponzi scheme -When a Ponzi scheme is not stopped by the authorities, it sooner or later falls apart for one of the following reasons