

Pyramid Scheme

ME

(Company #1 & #2's Corporation CEO)

A1

(Company #1's President)

A2

(Company #2's President)

B1

(VP of Company #1)

B2

(VP of Company #1)

B3

(VP of Company #2)

B4

(VP of Company #2)

C1

C2

C3

C4

C5

C6

C7

C8

(Executive Directors of Company #1)

(Executive Directors of Company #2)

D1

D2

D3

D4

D5

D6

D7

D8

D9

D10

D11

D12

D13

D14

D15

D16

(New recruits)

Rules:

- 1) Each person must recruit two people to join the company (i.e. each person in row C must recruit two people to get the row D people)
- 2) New recruits pay \$400 to buy stock in the company with the promise that they will eventually become the CEO and retire with \$4650 (\$4250 of profit - see #4a below)
- 3) The \$400 that a new recruit pays is distributed as stock bonuses:
The CEO gets \$225, President gets \$100, VP gets \$50, and Executive Director that recruited the person gets \$25
- 4) The following takes place when row D is completely filled with 16 people:
 - a) the CEO "retires" with: $16 (\$225) + 8 (\$100) + 4 (\$50) + 2 (\$25) = \$4650 - \400 (the initial stock purchase) = \$4250 net profit
 - b) the corporation is split in half and everyone is "promoted" one level up and now receives the higher amount of money from the new recruits in the new row E

Variations of Illegal Pyramid Schemes:

1) Chain Letters:

To the name at the top of the list (which usually contains 5 names) send anywhere from \$1 to \$10. Then remove that person's name and put your name at the bottom of the list. Send the letter out to anywhere from 2 to 10 new people with the instructions for them to send money to the person at the top of the list and then add their name below yours etc.

2) Reverse Pyramid:

An "investment broker" sends out 100,000 letters to possible investors stating that he/she has developed a revolutionary formula that can predict changes in the stock market. Of the letters sent out 50,000 predict that the market will go up the next week and 50,000 predict that the market will go down.

The following week the broker only mails to the 50,000 people that received the correct prediction. To 25,000 of these people the broker predicts that the market will go up the next week and to the other 25,000 he/she predicts that the market will go down.

The following week the broker only mails to the 25,000 people that received the correct prediction. To 12,500 of these people the broker predicts that the market will go up the next week and to the other 12,500 he/she predicts that the market will go down.

The following week the broker only mails to the 12,500 people that received the correct prediction. To 6,250 of these people the broker predicts that the market will go up the next week and to the other 6,250 he/she predicts that the market will go down.

To the 6,250 people that the broker has been correct with, he/she asks them to invest \$2000 dollars with him/her because he/she has been correct for 4 straight weeks and they cannot go wrong with this revolutionary formula. If only 50 out of the 6,250 people invest (0.008% reply) that will be \$100,000 in the broker's pocket.

3) Ponzi Investment Scam:

An "investment broker" states that he/she can get you a return on the money you invest with them that is extremely high (like between 30% and 50%). This attracts some rich people that invest (give) their money to the broker.

The investment broker does make good on that type of return for the initial investors (possibly by using his/her own money as seed money (money used to get something started)).

Those investors tell their other rich friends about the smart business person they are investing with and tell about all the money they are making. This attracts more people to invest with that person.

With part of this new money he/she pays the earlier investors to keep them happy. As more people invest with the broker, he/she keeps using a part of the money to pay off the early investors. When the number of new investors starts to dwindle and the more recent investors start complaining that they are not making any money, the broker absconds (leaves) with the rest of the money that he/she has siphoned off.

4) Certificate Pyramid (same basic setup as the pyramid scheme on the other side):

You buy a "bond" for \$500 and sign a contract that allows you to make and register one copy of the bond. You then sell both the original bond and the copy for \$500 each, thus instantly making \$500 of profit. The people you sell to are allowed to make one copy and sell both of their bonds for a profit of \$500 etc.