

The fundamental nature of money

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In classical treatments, money has four functions: medium of exchange, unit of account, store of value, standard of deferred payment. Few can see why 'standard of deferred payment' is distinct, and some add 'means of payment' as another. But that's just sociology. In the same spirit, the characteristics of money are often listed as divisibility, durability, storability, recognisability, transportability.

An economist's *definition* is what is wanted.

- a particular kind of asset
- surely serving some or all of the functions
- it is essential that it does not mean 'wealth', 'income' etc. It means *money*.
- But *what* exactly?

The first problem might be finding *any* role for money. Where is it in Walrasian equilibrium? (Don't answer that question).

- cash in advance vs money in the utility function

A definition in terms of store of value?

- lots of things are stores of value
- Wallace (1980) seems to want to prove something, viz intrinsically valueless, inconvertible assets can be held in full information equilibrium despite a positive opportunity cost.
- IMHO Tobin (1980) has not seen Wallace's target, and therefore uses common sense to criticize him: value can be stored in goods, or land, in fact accumulation come later in life, ageless consumers would still use money, in the model 'money' is held for an 'implausibly' long time, social security would be more sensible. Missing the point, but not wrong, perhaps.

The medium of exchange and Mengerism - Menger (1892)

- no media of exchange created by legislation (he says)
- the 'double coincidence of wants' from Jevons (1875/1890)
- The inconvenience of barter and a story or fable about the development of money
 - o Degrees of 'saleableness'; 'moneyness' enhances saleability; precious metal had the greatest 'saleability'. Then the state coins
 - o Further stories of institutional development can be told.
- The Kiyotaki and Wright (1989) version
 - o Three types of people – 1, 2, and 3 – consuming a good of the same number and producing something else.
 - A type 1 holding good 2 will trade with
 - A 2 holding a 1
 - A 2 holding a 3 if holding 3 is better than holding 1
 - A 3 holding a 1 if holding 2 is better than holding 3
 - 'holding X is better than holding Y' turns on tradability and carrying cost. Commodity money can emerge.
 - o A fourth good – fiat money: non-produced, zero carrying cost, never consumed
 - Acceptance depends on anticipated acceptance

- Does not rule out other commodity money exchanges
 - Does not necessarily increase welfare
 - Less holding of consumable goods!
- Assessing KW
 - agents can only hold one good
 - eliminates Gresham Law possibilities
 - Very strange in the fiat money case
 - And the source of doubt about welfare
 - 'tenuousness' of fiat money equilibrium – where is the insight?
 - the issue of initial circulation of fiat money is handled by appeal to the state
- Menger v KW
 - KW: more solid demonstration of the emergence of commodity money; show possibility of high carrying cost money; nothing on role of precious metal
 - Menger: more on what kind of thing might be money
- Dowd (2000)
 - more Menger-style development with no suggestion of history
 - 'from the view-point of conjectural history' laissez faire does very well!
- Doubts about Mengerism
 - 'saleability' of precious metal
 - at what level of development, with participants of what wealth, 'colour, ring, and specific gravity' – really?
 - Gresham's law
 - How much specialisation pre-dates monetized markets?
- State and credit theories
 - Unit of account is primary in history and theory
 - Keynes (1930) on the Babylonians and all that
 - Units without physical existence – William I pound, guinea etc
 - *Debt* arises in a variety of ways
 - Marriage, murder, and taxes (e.g. Knapp (1924/1973), Innes (1914))
 - Transferrable tokens of debt appear to predate coins in medieval Europe
 - Colonial rules and the imposition of money
- And a few words on Yap
 - Huge stone disks quarried on Palau
 - The story from Furness (1909), adopted by Friedman (1992)
 - Exposes the importance of transactions medium, and the sensible insight of Melitz (1974)
 - You would not normally call it money if it were not transactions medium and unit of account
- Happy Holidays!

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