

CRYPTOCURRENCES: CHALLENGES AND OPPORTUNITIES FOR MONETARY POLICY

AGG
IESDO

Alfredo A. Romero
Find me @EIDocRomero
Associate Professor of Economics
Presented to Blockchain Symposium
09/26/20



NORTH CAROLINA AGRICULTURAL
AND TECHNICAL STATE UNIVERSITY

1

AGG
IESDO

IS GOLD MONEY?



NORTH CAROLINA AGRICULTURAL
AND TECHNICAL STATE UNIVERSITY

ncat.edu

2

2

WHAT IS MONEY?

Money is any financial asset that has the following three characteristics:

- Medium of Exchange
- Unit of Account
- Store of Value



3

WHAT IS MONEY?

Money is any financial asset that has the following three characteristics:

- Medium of Exchange
- Unit of Account
- Store of Value



4

WHAT IS MONEY?

Money is any financial asset that has the following three characteristics:

- Medium of Exchange
- Unit of Account
- Store of Value



5

WHAT IS MONEY?

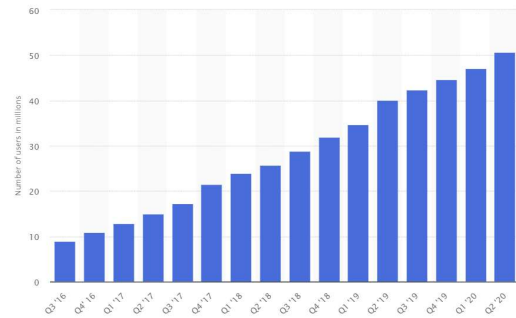


6

CAN BITCOIN BE MONEY?

Medium of Exchange

- As of last Friday, market capitalization of Bitcoin was approximately 197 billion dollars.
- That is 2.6% of the Market Capitalization of Gold, approximately 7.5 trillion dollars.
- And 1.6% of the U.S. Money Supply
- Accepted by approximately 2,300 businesses in the U.S. vs. 10.6 million for VISA, not to mention scalability.



7

CAN BITCOIN BE MONEY?

Unit of Account

- If we price bitcoin in bitcoin, its price is stable.
- As soon as we price bitcoin in other things, then its price reflects the confidence placed in the currency.

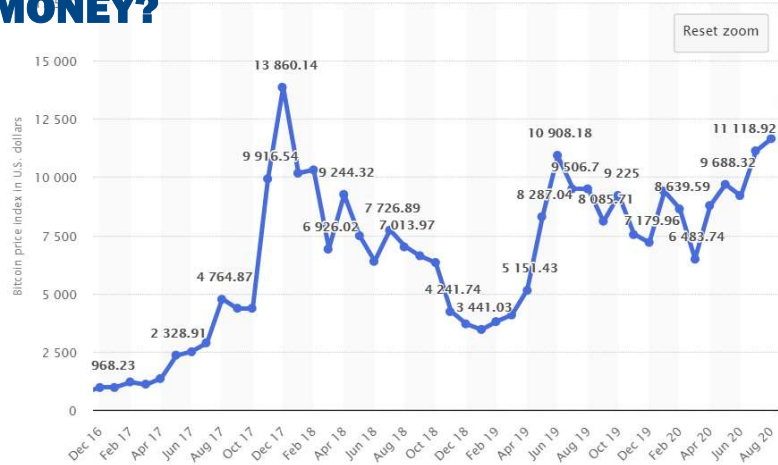
What is the price of a pair of jeans in bitcoin?



8

CAN BITCOIN BE MONEY?

Store of Value Bitcoin



9

THE CASE FOR BITCOIN

Currency Competition

- The money that would prevail would be the better money.
- Currency competition would prevent manipulation of interest rate and prices.
- It would eliminate the inflationary tax.

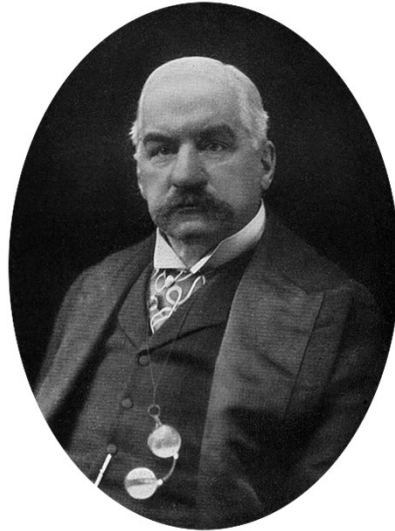


10

THE CASE FOR THE DOLLAR

Lender of Last Resort

- Financial Crises in:
1785, 1792, 1796–1797,
1819, 1837, 1857, 1866,
1873, 1884, 1890, 1893,
1896, 1901, 1907



11

THE CASE FOR THE DOLLAR

Lender of Last Resort

- By creating money, the Federal Reserve can inject liquidity into the economy during times of financial stress.
- The Fed's monopoly on money helps it fulfill its dual mandate of maximum employment and price stability.



12

THE CASE FOR CRYPTODOLLAR

Digital Cash

- A cryptodollar would still work as a semi-anonymous medium of exchange accessible to banks and the population.
- The system may be cheaper and easier to manage than a cash system.
- During debates for the CARES Act, an idea for a government issued digital wallet was floated under which Congress would authorize the Federal Reserve to create “FedAccounts,”
- They would allow U.S. residents, citizens and businesses located in the country to access financial services.

13

THE CASE FOR CRYPTODOLLAR

Monetary Policy

- The cryptocurrency would need to change the rate of supply in response to certain economic targets or be allowed to be interest carrying.
- It will have to continue to be decentralized, otherwise it would just be another e-currency.
- This would require to heighten the security and reliability of the system by the government.

14

THE CASE FOR CRYPTODOLLAR

Monetary Policy

- The most likely scenario is:
- The adoption of distributed ledger technologies for settlements of transactions.
- The presence of cryptocurrencies will create an incentive for the Fed to better manage monetary policy.
- The adoption of digital wallets might increase financial stability and imposed additional discipline on commercial banks