Ec 365

Fall 2017

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Assignment 2 (due in class, Tuesday 9/26, 1pm)

Questions from past mid-terms

1. Assume that there is an economy with metallic money (coins). The country’s economy is such that the demand for the real quantity of money is constant. In the year 200 (fictitious), there is only one type of coin in circulation. That coin contains half silver and half copper. The quantity of coin in circulation is 100 million denarii (plural of denarius). Each coin has a face value of one pound. The intrinsinc value of a coin is half a pound. Assume that copper is cost-free and the manufacturing cost of any coin is zero.

1. In 200, the ruler instructs the mints to produce new coins with a total face value of 100 million pounds and with the same degree of fineness as the coins in circulation. Is this a feasible policy? Describe the impact on the price level.
2. After implementing the first policy in 200 and the stabilization of the price at its new level, the ruler instructs the mints in the year 220 to produce new coins with a degree of fineness equal to 25 percent. What is the quantity of new coins that can be issued with no impact on the price level? What is the amount of revenues that the ruler can obtain from this policy?
3. Assume that the price level has stabilized after the previous policy, by the year 225. Can the ruler get more revenues in the year 225 by instructing the mints to produce more of the same coins as in 220? Describe the likely events in this case?

2. The following table describes hypothetical coins that have been issued in the hypothetical years of the first column. F is the degree of fineness (in percentage of silver). N is the number of coins per pound of alloy. P is the price of silver (denarius per pound of silver). c is the brassage in percentage of the face value of the coin.

Coin of 1 denarius

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | F (%) | N | P | c (%) |
| 220 | 50 | 80 | 10 | 3 |
| 221 | 40 | 80 | 12 | 3 |
| 222 | 5 | 100 | 90 | 20 |

1. Consider the coin in the first line. Could this coin be put in circulation at a profit?
2. Could the coin described in the first line be in circulation at the end of 222 ? Explain.