A theory of money and financial institutions: Fiat money and noncooperative equilibrium in a closed economy

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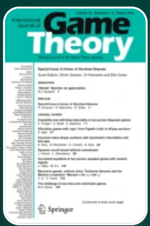

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Abstract

Fiat money is a type paper or symbol with which any individual may buy most things by law. It has virtually no intrinsic value but immediately assumes a trading value when its shortage (i.e., when it is no longer a slack variable to everyone in the appropriate set of simultaneous programs) can prevent trades that would have been deemed profitable in a nonmonetary competitive equilibrium system.

This paper sketches an approach to a theory of fiat money by investigating the properties of a noncooperative dynamic trading game embedded within a closed

economic system.

Among the conclusions are that inflation and deflation are not symmetric, and that it is not possible to define a noncooperative game involving borrowing without specifying “rules of borrowing” or a bankruptcy law.

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