Some Economics of Private Digital Currency

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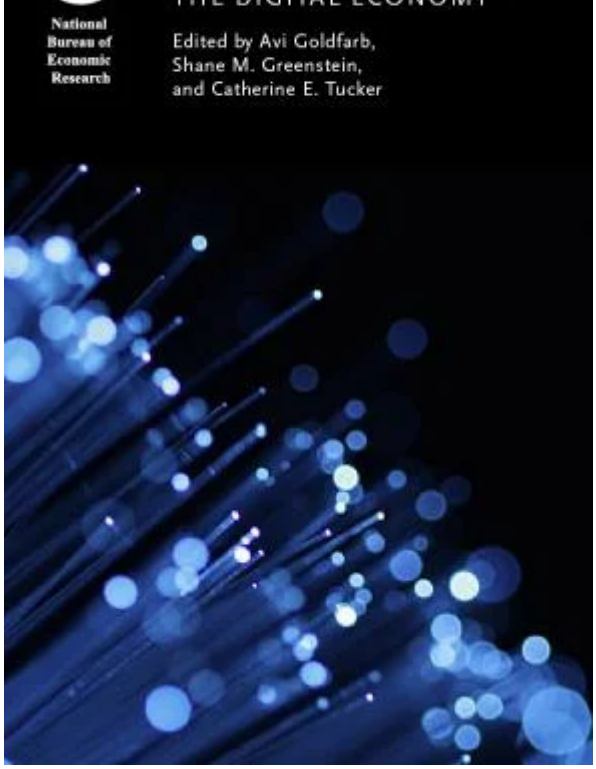
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This paper reviews some recent developments in digital currency, focusing on platform-sponsored currencies such as Facebook Credits. We develop a model of platform management in which platform currency offers "enhancements" to users who spend time on the platform. Users allocate time between earning money outside of the platform and using the platform. The platform can equip its currency in different attributes and limitations, with the goal of maximizing profit. We show that limiting functionality of currency (e.g., prohibiting transferability) may increase usage on the platform. But depending on the source of the revenue, different attributes of the currency are optimal. We also find that it will not likely be profitable for such currencies to expand to become fully functional competitors to state-issued currencies. However, it is still possible, in some cases for limited platform-sponsored currencies to be attractive outside of the platform.





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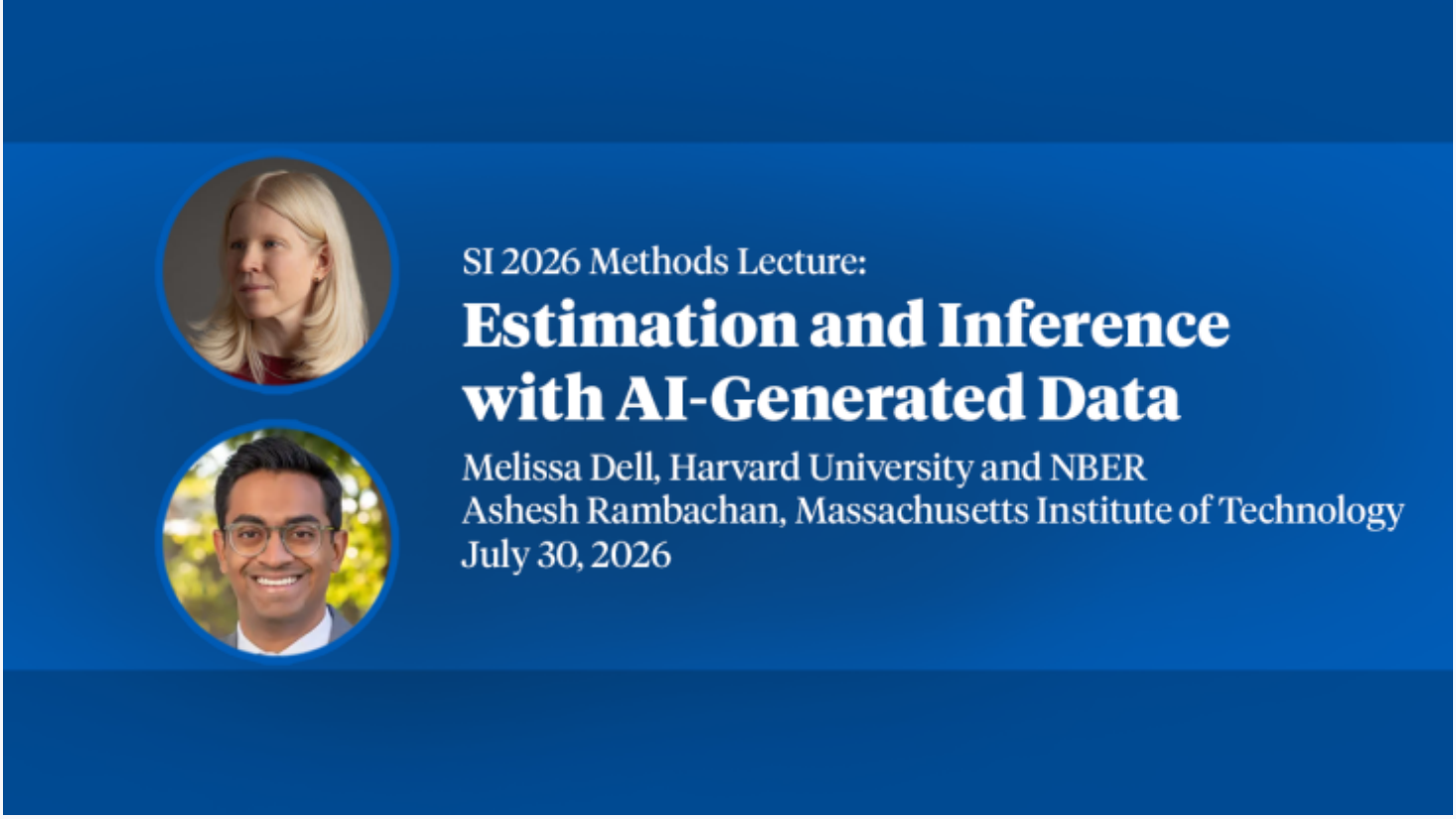


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