

CHAPTER ELEVEN

Gold

Commodity Money

Value and Confidence

Fiat Currency

Speculative Attack

Commodity Money

Value and
Confidence

Fiat Currency

Speculative Attack

Commodity Money

Commodity Money

Money that has intrinsic value, such as gold.

Society deems commodity money valuable - creates a perception of stability.

Society must separate feelings from facts about gold.

Gold is often thought of as a safe haven during times of economic uncertainty.

Commodity Money

Value and
Confidence

Fiat Currency

Speculative Attack

Value and Confidence of Gold

Gold trades primarily on fear rather than any economic fundamentals.

- When economic troubles arise and confidence is eroded, gold becomes a safe haven for those who believe that it is stable
- Gold is not a true investment because there is no income return from gold

Commodity Money

Value and
Confidence

Fiat Currency

Speculative Attack

Fiat Currency

Fiat currency

Money without intrinsic value, namely paper money.

The gold standard

Return to the practice of fixing prices of domestic currencies in terms of a specified amount of gold.

Commodity Money

Value and
Confidence

Fiat Currency

Speculative Attack

Speculative Attack

Speculative attack

When speculators attack the currency of a country trying to maintain a fixed exchange rate.

If the country does not hold enough foreign currency reserves, they may fail to preserve the fixed exchange rate.

Figure 11.2: Fixing the Exchange Rate after Suspected Devaluation

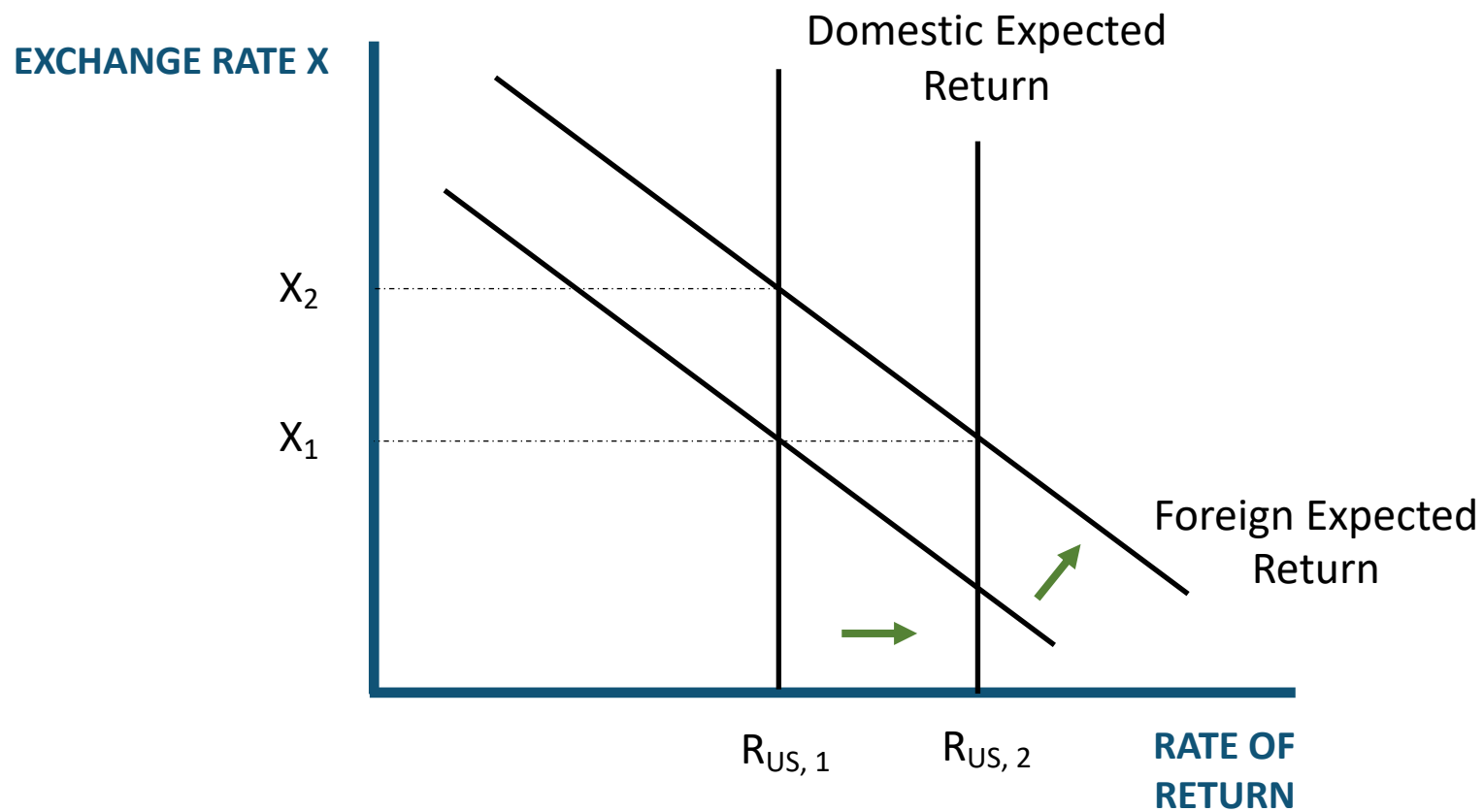


Figure 11.3: Speculative Attack on a Fixed Exchange Rate

