Graduate Seminar

Department of Economics and Finance

College of Business and Economics

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MA Candidate

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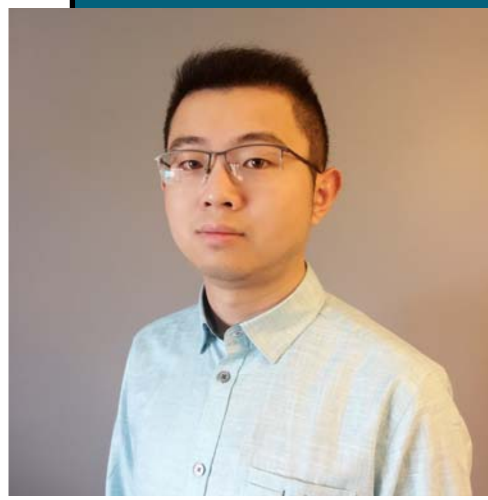

Cigarette Money

Inspired by the cigarette money episode in Germany after the World War II, I establish an OLG model to study an economy where cigarettes can be used as both consumption and a medium of exchange. In my model, there are two types of individuals, future generations and the initial old. Each future generation lives for two periods, as the young and old. The initial old appear at the beginning of the economy as the old and live for only one period. There are two goods in my model, general goods and cigarettes. Each future generation receives an endowment of general goods when young, and nothing when old. The initial old enter the economy with cigarettes. Because general goods are non-storable but cigarettes are storable, cigarettes can be used as a medium of exchange to help future generations to acquire general goods consumption when old. Meanwhile, young agents can derive utility from consuming cigarettes. We confine our attention to the stationary monetary equilibrium and find that in such an equilibrium, future generations will use some cigarettes for consumption and the rest ones as a medium of exchange. Moreover, I examine when cigarettes will be used as both consumption and a medium of exchange, and when cigarettes will be used solely as a medium of exchange. My major results are as follows: (1) when cigarettes are used both as a medium of exchange and as consumption in equilibrium, the marginal utility a future generation derives from consuming cigarettes should be equal to the marginal utility he derives from holding cigarettes as a medium of exchange. (2) When cigarettes are used solely as a medium of exchange in equilibrium, the marginal utility a future generation derives from holding cigarettes as a medium of exchange should be higher than the marginal utility he derives from consuming them.

Date: Monday August 14th 2017
Time: 11:00am
Room: Mackinnon 720