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Digital Currency Economics: Developments and Unanswered Questions

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Abstract

Being here now is a real pleasure. I appreciate the invitation from John Taylor and John Cochrane. It is an honour to address this distinguished group of Stanford academics, Stanford students, and affiliates of the Hoover Institution, who will undoubtedly be the tomorrow's entrepreneurs, policymakers, and innovators. I will talk about the digitalisation of money in my speech today. Do we need digital currencies for the economy? The idea of digital money is not new. We already regularly utilise digital payment methods because commercial bank money has been digital for decades. Banks are already given wholesale access to digital currency by central banks. But in this lecture, I'd want to talk about new digital currencies, sometimes known as "digital currency," that has recently gained popularity.

Keywords: Digital currency economics • Development • Economics

Introduction

Who should issue these new types of digital currencies if we do, and how should they be created? What effects will digital currencies have on the financial system? These are serious issues that central bankers, academics, and the general public are thinking about a lot. Intend to clarify the ideas and outline a course of action today. Thousands of unique crypto currencies have been created since the launch of and hundreds of exchanges have formed to facilitate the trading of these currencies. While many of these currencies have niche use, some, like Bitcoin and Ethereum, have gained widespread recognition. Around these currencies, a diverse range of markets and endeavours are emerging, such as the trading of derivatives based on crypto currencies, completely decentralised exchanges, and crypto lending platforms. A few of central banks have already started issuing central bank digital currency (CBDC), and the majority of central banks worldwide currently report that they are doing the same. Private and public digital currencies are rapidly expanding, which creates a number of intriguing and important economic problems [1].

A young but rapidly expanding body of economics literature is beginning to offer solutions to the many intriguing and basic concerns that the rapid emergence of digital currency, both private and public, raises. Nine pieces and related debates on the cutting edge of this new literature are included in this special edition. The Bank of Canada, Rutgers University, the Journal of Economic Dynamics and Control, and the Search and matching in Macro and Finance (SaMMF) Virtual Seminar Series together conducted a virtual workshop on October 7-9, 2020, where these papers were presented. We appreciate everyone who attended the workshop, but especially the discussants, for helping us compile a fascinating collection of papers on this subject [2].

Personal attitudes refer to how we personally feel about a specific conduct. When we think about the conduct, the sum of all our knowledge, attitudes, and prejudices-both positive and negative-comes to mind. Tobacco is calming and makes me feel good, but it also makes me cough in the morning, costs a lot of money, and smells unpleasant, for instance, depending on our different attitudes toward smoking. Subjective norms: These take into account how we perceive other people's perceptions of a particular conduct, such as smoking. This might be how people in your family, circle of friends, and workplace feel about smoking. We judge the attitudes of others, not what other people think [3].

The degree to which a person views the action of interest favourably or unfavourably is referred to as their attitude. It requires taking into account how the conduct will affect the results. Behavioural intention: These are the driving forces behind a particular activity, and the stronger the intention to carry it out, the more probable it is that the conduct will be carried out. Subjective norms - This is the notion of whether the majority of individuals find the behaviour to be acceptable or unacceptable. It has to do with a person's opinions about whether peer and significant others believe the individual should indulge in the behaviour. Social norms are the accepted norms of conduct within a community, among individuals, or in a broader cultural setting [4].

Description

The financial system, and even the creation of money itself, has been affected by the technology revolution. For instance, market-makers now have access to real-time prices at five-millisecond time intervals on the main foreign exchange (FX) venues. The complete market order book can be checked every 100 milliseconds, or 36,000 times per hour, according to Project Rio, a new market-monitoring tool created at the BIS Innovation Hub. The market for payment services, which is the starting point for all financial activity, is essential to all economic activity. Because payments need less capital than other financial services do and because the data they produce is so valuable for cross-selling, they are appealing to digital disruptors. Maybe it is not surprising that we have witnessed a burst [5].

Numerous advancements in underpinning infrastructures that have been years in the making are the foundation of numerous payment advances. For instance, during the past few decades, central banks all over the world have implemented real-time gross settlement (RTGS) systems by leveraging technology advancement. These systems' operating hours have been extending globally in the meantime, and in some places they are now virtually always on. Additionally, innovation is rife in the retail sector, and 51 economies at last count have rapid retail payment systems that enable 24/7 quick settlement of payments between consumers and businesses. These include programmes like the FedNow plan in the US, CoDi in Mexico, PIX in Brazil, and the Unified Payment Interface (UPI) in India.

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Conclusion

There isn't a single, all-encompassing framework for understanding digital currencies, like there is for many other significant economic concerns. Instead, fresh models are being created to answer certain issues. To fully comprehend the function of digital currencies, it is necessary to model the frictions that lead to the development of financial institutions like banks, exchanges, and online platforms as well as the need for a method of payment. Several studies in this special issue model frictions that result in a liquidity function for digital currencies using the New Monetarist framework developed by Lagos and Wright (JPE, 2005). Additionally, the Diamond and Dybvig banking theory is employed to examine the potential of digital "smart contracts" and the effects of digital currencies on the stability of financial systems.

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Conflict of Interest

None.

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