

"Anchors aweigh: the transition from commodity money to fiat money in western economies"

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Discussion Questions**

1. In 1971 president Nixon suspended the convertibility of the US dollar into gold. Why, according to Redish, was the transition from commodity money to fiat money a far more gradual process than this once-and-for-all action by the US would suggest?

Exactly what does Redish mean by commodity money?

What, according to Redish, are important events that represent mile stones along the road to fiat money? How long did the process take?

Why, according to Redish, was the Bretton Woods agreement an important step in the transition?

Why, according to Redish, was it no longer possible in the late twentieth century to "lengthen the chain further"?

2. According to Redish, is a commodity money system or a fiat money system superior?

What, according to Redish, are the advantages of a fiat money system? Of a commodity money system?

What, according to Redish, is the role of hyperinflation in explaining the transition from commodity money to fiat money?

What does Redish mean when she says (page 779) that the money stock is anchored by a natural resource constraint? Is such an anchor an advantage or a disadvantage of commodity money?

Why, according to Redish, did the British go off the gold standard during World War I? Why did they return to the gold standard after the war?

3. Why, according to Redish, did the monetary authority play a role in the commodity money standard?

What does Redish mean when she says (page 779) that coins were traded by their value in a unit of account which differed from the medium of exchange? How can the unit of account be different than the medium of exchange?

What is a central bank and what role did it play in the transition?

4. Should the U.S. reinstate convertibility of the dollar into gold?