

## Back to the Gold Standard



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  - Public, domestic and foreign, could demand gold at will for dollars.
  - Government essentially had no control over monetary base.

## Why Gold for Money

- High value to weight ratio.
- Does not corrode or rot.
- Homogenous.

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Gold was not universal:  
India, among others,  
used silver.

## Some Problems with Gold

- Adulteration with Base Metals
- Clipping Coins

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- Adulteration with Base Medals
- Clipping Coins
- Solution: Government Mints
  - Assays Gold
  - Stamp Coins
  - Mill them

## The London Goldsmiths

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  - Keep it secure at your goldsmith.

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- Why keep gold at home?
  - Keep it secure at your goldsmith.
- And why actually use gold for purchases?
  - Transfer receipts
  - Essentially Checking Accounts

## The Goldsmith

- You hold 100 oz of gold for the following accounts.
  - Smith:40 oz
  - Jones 40 oz
  - Green 20 oz
- Withdrawals and deposits average out.
  - 90-110 oz

## The Goldsmith

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- Wilson gives you 20 oz of gold
- You give him a gold receipt.

You have invented fractional banking!

### • Assets

- ✓ 100 oz of gold
- ✓ 20 oz IOU from Wilson

### • Liabilities

- ✓ 120 oz of gold accounts

## Eventually...

- Assets
  - 20 Oz of Gold
  - 180 Oz of Gold IOU's
- Liabilities
  - 200 Oz of Gold Deposits

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Why this ratio? Why not? The key point is that you only want to keep fractional reserves.

## One of your depositors strikes gold

- Mines 80 oz of gold, gets it minted by the government and brings the coins to your bank.

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### • Assets

- 100 Oz of Gold
- 180 Oz of Gold IOU's (including the new 80 oz)

### • Liabilities

- 280 Oz of Gold Deposits (including the new 80 oz.)

## One of your depositors strikes gold

- Mines 80 oz of gold, gets it minted by the government and brings the coins to your bank.

### • Assets

- ~~20~~ 100 Oz of Gold
- ~~180~~ 90 Oz of Gold IOU's

### • Liabilities

- ~~200~~ 1000 Oz of Gold Deposits

## The Consequences

- Your customer is better off.
- Prices rise 5 fold.

End

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