Money-hoarding as a behavior toward risks that agents in the same cohort cannot share

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Abstract:

Backgrounds. In earlier literature, it has been shown that in a stochastic overlapping generations (OLG) economy, there exists room that fiat money can have a positive premium as a means for intergenerational risk-sharing.

Purpose. The aim of this paper is to further examine what circumstances will make a necessity of money-hoarding as a consequence of intergenerational risk-sharing.

Model. We study an OLG economy with a risky investment project, wherein agents can privately provide insurance.

Results. We show that when the economy faces purely idiosyncratic risks, agents can privately provide sufficient insurance and the value of fiat money cannot be positive. On the other hand, when the economy faces macroeconomic risks, agents cannot privately provide sufficient insurance and the value of fiat money can be positive. Our results emphasize the role of money as a means to avoid not idiosyncratic risks but macroeconomic ones.

Keywords: Macroeconomic risk; Idiosyncratic risk; Insurance; Fiat money; Overlapping generations model.

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