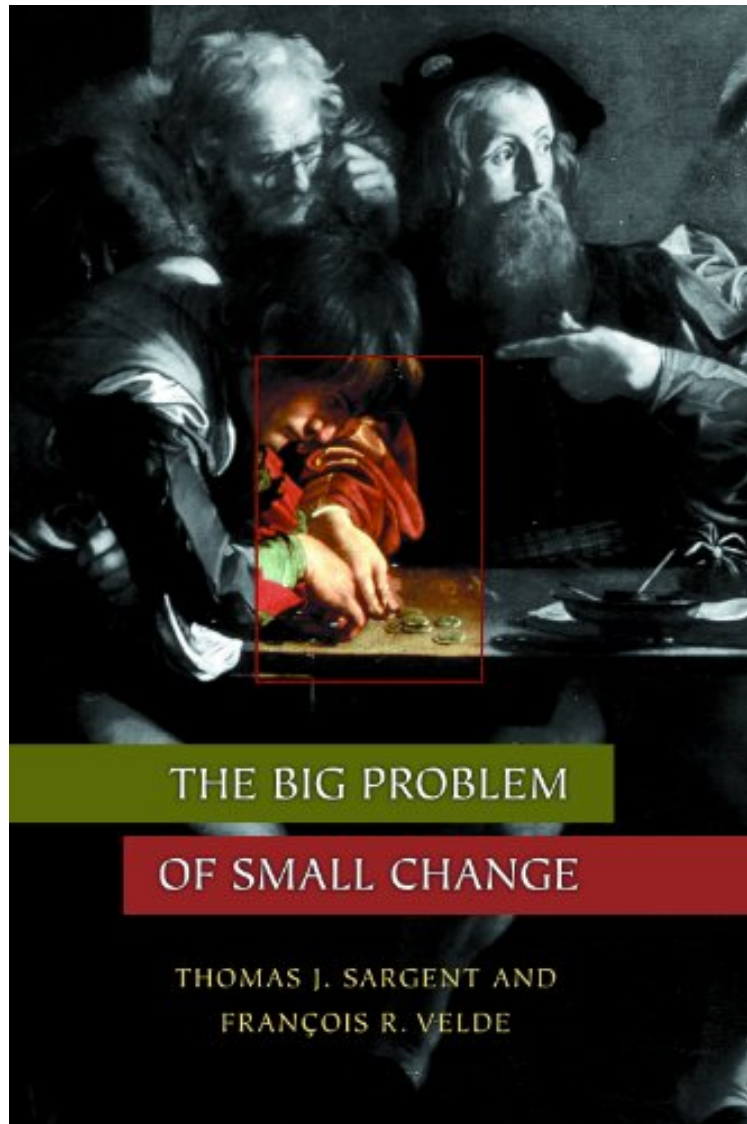


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## The Big Problem of Small Change (The Princeton Economic History of the Western World)

*Thomas J. Sargent, François R. Velde*  
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**Thomas J. Sargent, François R. Velde : The Big Problem of Small Change (The Princeton Economic History of the Western World)** before purchasing it in order to gauge whether or not it would be worth my time, and all praised The Big Problem of Small Change (The Princeton Economic History of the Western World):

0 of 0 people found the following review helpful. Nice book to read By Terry Yip If you are interested in the history of monetary system. This is the book for you! The content is decent. Also, it is not as mathmaticall, when the authors come to theory. 0 of 0 people found the following review helpful. a very good book By Bernd Kotz The book explains

some aspects of monetary theory. Today the money is made of paper (fiat money). In earlier times the money is restricted by the appearance of a natural metal (gold or silver). So the prices can only vary in a special range and the supply of money is restricted by its scarcity. The state guarantees a fixed exchange rate of coins in metal. So the shortage of small coins is controlled under the quantity theory of money and inflation. Both authors use a theoretic model that explains the relationship between the metal price and coin circulation. The price level determines the range of the minting coins into metal and putting metal into coins. The supply side describes the relationship. The demand side describes what coins will be asked for. The quantity theory of money explains the relationship between small and big coins and the interest on each coin will control its scarcity. A misconception between them produces a demand for one coin and leads to the problem of small change- Both sides interact with each other. It is a very good description and an easy handling of the problem. In the following are debasement of coins and open market transactions explained. The monetary system of the medieval age and the Renaissance is explained and the unnecessary side effects of counterfeits and coin shortage. The cure is a monetary system of tokens or fiat money. When the government guarantee a fixed exchange of money for an amount of goods then it is a good mix of no inflation. In history are several models tested and theoretic problems discussed. The book shows a good look on old technologies, medieval fluctuation of different currencies at once and the problem that occur with it. The beginning of money accounting and the experience on monetary practices. Inflation and the gold system are viewed. After all it is a very enjoyable book. 3 of 3 people found the following review helpful. Highly Recommended! By Rolf Dobelli Authors Thomas J. Sargent and Francois R. Velde offer a fascinating work of scholarship that studies the history of coinage in broad scope and depth. They dwell on a problem that is no longer a problem: the set value of coins. Internationally, consumers take it for granted that so many units of small change equal a larger unit of money. A U.S. shopper never wonders if 100 pennies could be worth more or less than a dollar. But during most of history, the value of small change was a vexing economic conundrum. The authors explore the evolution of the monetary system from Roman times, taking a circuitous and rambling path that touches on many subjects, from sieges to papal speculations. Regrettably, this book may be inaccessible to readers without a firm grounding in economic history and some comfort with higher math since the authors are scholars and assume that you are, too. Nonetheless, we recommend this sweeping book to anyone whose curiosity is piqued by this preacute;is.

The Big Problem of Small Change offers the first credible and analytically sound explanation of how a problem that dogged monetary authorities for hundreds of years was finally solved. Two leading economists, Thomas Sargent and Francois R. Velde, examine the evolution of Western European economies through the lens of one of the classic problems of monetary history--the recurring scarcity and depreciation of small change. Through penetrating and clearly worded analysis, they tell the story of how monetary technologies, doctrines, and practices evolved from 1300 to 1850; of how the "standard formula" was devised to address an age-old dilemma without causing inflation. One big problem had long plagued commodity money (that is, money literally worth its weight in gold): governments were hard-pressed to provide a steady supply of small change because of its high costs of production. The ensuing shortages hampered trade and, paradoxically, resulted in inflation and depreciation of small change. After centuries of technological progress that limited counterfeiting, in the nineteenth century governments replaced the small change in use until then with fiat money (money not literally equal to the value claimed for it)--ensuring a secure flow of small change. But this was not all. By solving this problem, suggest Sargent and Velde, modern European states laid the intellectual and practical basis for the diverse forms of money that make the world go round today. This keenly argued, richly imaginative, and attractively illustrated study presents a comprehensive history and theory of small change. The authors skillfully convey the intuition that underlies their rigorous analysis. All those intrigued by monetary history will recognize this book for the standard that it is.

From Publishers Weekly From Charlemagne's introduction of the silver penny in 800 AD to about the middle of the 19th century, small denomination coins were a headache for governments (due to production costs and constant shortages and depreciations); it was often more profitable for owners to melt down the small coins to make larger denominations. In *The Big Problem of Small Change*, Stanford University economics professor Thomas J. Sargent and Federal Reserve Bank economist Francois R. Velde describe how economists finally solved this problem by introducing fiat money (coins whose value was symbolic), paving the way for modern forms of currency and credit. This elegantly written, scholarly work will appeal to those interested in financial history or monetary theory. Copyright 2002 Cahners Business Information, Inc. Winner of the 2003 for Best Professional/Scholarly Book in Business Management Accounting, Association of American Publishers "The core of [the] story is a mathematical model, in this case one that captures possible solutions to the small-change puzzle, including the correct one. . . . For centuries, authorities sensed that economic health depended on the steady, predictable availability of currency. But they did not understand how to realize this goal. Messrs. Sargent and Velde deserve credit for revealing how the correct model came into being. . . . More than a penny for their thoughts."--Paul Podolsky, *The Wall Street Journal* "This fascinating new history of money shows that the key ingredients of a sound currency were identified in

Europe hundreds of years ago. The mystery is why, even today, so many governments fail to put this knowledge to work."--The Economist

"This elegantly written, scholarly work will appeal to those interested in financial history or monetary theory."--Publishers Weekly

"[The authors'] design serves as a temple for the conduct of research in economics as an empirical science. They have done it just right. Their book is strongly recommended."--Choice

"This is an important and wide-ranging book, which will reshape the way in which we think of the origins of modern money and modern monetary theory. It is . . . so well organized that the lay reader can get the message simply by reading the fascinating narrative and taking for granted the mathematical account of the standard formula, presented in two chapters at the conclusion. It is also splendidly illustrated and beautifully produced."--Harold James, Times Literary Supplement

"A remarkable book. . . . The Big Problem of Small Change is an impressive piece of scholarship that should be of interest to most economists, not just to economic historians. It offers a coherent model of money that helps explain a recurring problem that can arise with a commodity of money system and that provides the basis for understanding a solution to this problem."--Arthur J. Rolnick and Warren E. Weber, Journal of Political Economy

"[H]istorically-minded readers will have traversed an insightful and entertaining exploration of European monetary history and of the writings of early monetary thinkers . . . with as much enjoyment in the reading as the authors seem to have taken in the research and writing."--Robert W. Dimand, History of Economic Ideas

This marvelous book is a fascinating and thoroughly original combination of economic theory, economic history, and the history of economic thought. In it, Sargent and Velde set out a simple, modern framework for thinking about monetary systems in which several denominations of currency circulate at once. They then use this framework to illuminate the workings of a huge variety of monetary arrangements in use from the Middle Ages to the present, and to trace the evolution of our understanding of the principles of monetary management. This is applied economics at its best.

(Robert E. Lucas, Jr., University of Chicago, 1995 Nobel Laureate in Economic Sciences )