Business Fluctuation and Monetary Exchange *

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Abstract

Economists often have argued that depressions occurred due to insecurity in a production process and prolonged through a monetary process. The author analyzes a shopping economy model to study a mechanism through which a depression prolongs due to a bias in distribution of the media of exchange. In one equilibrium with fluctuating fiat money economy, an industrial depression leads to a monetary depression. This fluctuating economy sometimes yields more welfare than its stabilizing case. The author also shows that the economy with commodity money is better than that with fiat money with respect to welfare performance.

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Key words : business fluctuation, money, matching, shops

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