The Effects of Discontinuing Small Denominations of Currency from a Monetary System*

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Abstract

For decades, economists have debated the price-rounding effect on the economy if the penny is eliminated. Deviating from the bulk of the literature, which typically considers case-studies with empirical simulations and data manipulation, I evaluate a multiple household, deterministic model with endogenous currency production. My findings suggest that the elimination of the smallest unit of currency has a “nickel-and-dime” effect on the economy, regardless of the rounding policy. This structural model is constructed and calibrated to emulate a “worst case scenario”, but it is also robust to the empirical results in the literature.

JEL Classification: E41, E42, E61, E62, E63, E64

Keywords: Penny, Rounding Policy, Deterministic Model, Treasury Policy, Currency, Multiple Household Model

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