

[Is this the monetary system we deserve?](#) [1]

Written by [Sam Bowman](#) [2] | Thursday 9 February 2012

[Jock Coats has a dilemma](#) [3]:

We had our coursework assignment for Macroeconomics 1. I could have some fun with this...

Individual Assignment Task:

In 2011, Bank of England chose to maintain the Bank rate at its historic low even when the prevailing inflation rate was significantly higher than the targeted level. You are required to critically evaluate this particular policy decision of Bank of England.

Using available information on the UK economy from 2000-2010:

i. Outline the pattern of economic growth, inflation, and interest rate over the past 10 years.

(This task requires that you find annual data on these economic variables over the whole period. You must present the data in a table and you must also present it in a graphical way so that you detect any significant changes in growth, inflation and interest rate over this period. You should then comment on these changes.)

and,

ii. Explain and critically evaluate the policy of Bank of England in relation to inflation for the last one year.

(You should explicitly link the discussion to relevant economic concepts. You should keep in mind the interrelated nature of fiscal and monetary policies and use it to expand on the discussion)

Should I be good, and answer as no doubt they would like us to answer, or be honest and tell the truth about the [failure of central banking](#) [4], the [curse of state manufactured inflation](#) [5] and the fiat money system?

It's a tough one. I'm sure Jock decided to put head over heart and gave the answers they were looking for. (All the better to change the questions when he's a professor himself.) But what a pity the world's pure fiat monetary regime, barely forty years old, is accepted so unquestioningly by nearly all academic economists. Perhaps they think "the science is settled", though lots of people who have claimed that in the past have turned out to be wrong.

What's doubly depressing is that economists, who are generally free market folk, don't see a problem with half of every transaction that takes place in the economy being based on the product of a state monopoly. A good way of judging something's efficacy is to ask, "If we were starting from scratch, is this what we would design?" Nothing as complex as a market economy can really be designed, so maybe of our fiat

monetary system we should ask a slightly different question: "Absent state coercion, is this what would spontaneously emerge?"

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