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## MONEY AND ITS FUTURE

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### Abstract

*In this study, the authors sought to highlight the situation of the money supply that exists at a given moment, the role of money and, above all, the need to correlate the money supply in circulation with the money supply that has coverage in goods and services.*

*The data provided by the National Bank (Central Bank of Romania) were used, from which a number of aspects emerge and, last but not least, the existing European data.*

*In arranging the data to provide some tabular and graphical representations, we used statistical-econometric methods, as well as intuitive analysis, comparative analysis or the study of the money supply according to the exchange rate.*

**Keywords:** money supply, cryptocurrencies, savings, developments.

**JEL classification:** E40, G10

### Introduction

Advanced economies are moving towards a cashless system, with a recent surge in cryptocurrencies issued by private entities. Digital currencies can increase welfare by reducing transaction costs, but they introduce particular, perhaps unprecedented, risks to financial stability. In addition, the gap between the money supply needed in the market and the money supply existing in the market may widen. This is all the more so since there is currently no methodology by which the currencies that appear and make their way into national or world economies are not set up.

There is broad consensus that the functions of money can be divided into three layers: primary, secondary, and tertiary, where each layer reflects the descending degree of direct functionality but, increasingly, the degree of generalization and transcendence it plays.

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Primary functions refer to them as a medium of exchange and measure of economic value. Secondary functions reflect their role as a store of value and standard for payments. The tertiary layer reflects the cognitive functions that would underlie credit, liquidity, saving, income distribution, and utility measurement and maximization.

The preference for money, especially currency, is constantly evolving. By the end of 2019 the market capitalization of cryptocurrencies was just under 1 billion euros and it has subsequently become a coin that is making its way into the market.

Several benefits of blockchain technology have been proposed in the literature, in that the decentralized nature can be a more difficult one in the corruption process. We are talking about Bitcoin and other digital currencies in which they have a special role in the money market.

Money will remain and transform as the economy digitizes and as new variants of currency are introduced into circulation.

### **Literature review**

Several benefits of blockchain technology have been proposed in the literature. Among the most prominent is its decentralized nature which makes it less prone to corruption and manipulation. There are recent developments in blockchain that indicate that it may play a very important role in future payment systems. The value of bitcoin depends on the self-fulfillment of the expectations of private agents regarding its trading, as presented by Blau (2017) in his paper. Ciaian et al (2016) highlight that technological advances and increased computing power have been an important factor for investors, resulting in increased demand and price for bitcoin. Franco (2015) is concerned with how to secure and verify transactions as well as control the creation of new cryptocurrency units. Gerba et al (2018) analyzed the historical evolution of different aggregates. Gerlach et al (2018) analyzed and highlighted that bitcoin market bubbles are the result of the search for safe assets, especially during the period of high uncertainty. Lahmiri et al. (2018) in their study argue that the underlying nature of Bitcoin as a digital currency means that it is vulnerable to greater volatility. Pieters and Vivanco (2017) highlight that some countries have already introduced instant payment services for several sovereign currencies, which are faster than blockchain technology in processing transactions.

### **Data, Results and Discussion**

It should not be overlooked that the most common function attributed to money is that of a medium of exchange, it facilitates the buying and selling

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of goods, thus eliminating the need for the double coincidence of desires as in the case of barter.

Currency (or cash) is the most liquid form of assets, meaning money can be very cheap and immediately exchanged for goods and services, and its value is stable at least for a short period of time. In fact, all assets such as bonds, savings accounts, treasury bills, government securities, stocks and real estate, they serve as stores of value, but differ in the degree of liquidity. In advanced economies, currency is stored in the form of bank deposits.

Monetary theory is a branch of economics that deals with explaining how the use of money, in various forms, affects the production, consumption, and distribution of goods.

For supporters of the theory of money, money is not just a means to facilitate the exchange of goods, but something more vital, affecting the general level of economic activity. According to them, the existence of a separate monetary sphere of activity is a fact with a deep significance. What happens in the monetary sphere can suddenly and dramatically influence the level and nature of employment, the return on capital and production.

By the end of 2019, the market capitalization of cryptocurrencies is just under EUR 1 trillion and is similar to the total size of currency in circulation in the third quarter of 2019 (at EUR 1.2 trillion). While the growth in total market capitalization has slowed somewhat since the last peak in 2018, in the not-so-distant future, activity in this market will exceed the size of the euro in the traditional foreign exchange market, which is showing its rapidly growing importance.

Volatility is an important driver of price. A regulatory system aimed at protecting the currency and preventing it from speculative attacks would increase its reliability and effectiveness as an alternative. Given the cross-border nature and use of cryptocurrency, the regulatory architecture would require international coordination of both compliance and supervisory tasks, as argued by the International Monetary Fund and the Bank of England.

Bitcoin and other digital currencies can change the function of money. The limited new evidence collected so far may suggest that digital currencies are viewed primarily as stores of value and are not typically used as a medium of exchange. Currently, there is little evidence of digital currencies being used as units of account. Thus, digital currencies do not really function as money in the economy and carry some risks if they were to be used in general in the long term, and digital currencies in their current form are not likely to replace traditional money in any economy.

Analyzing the situation at the macroeconomic level, we find that cryptocurrencies could pose a risk to monetary and financial stability. From

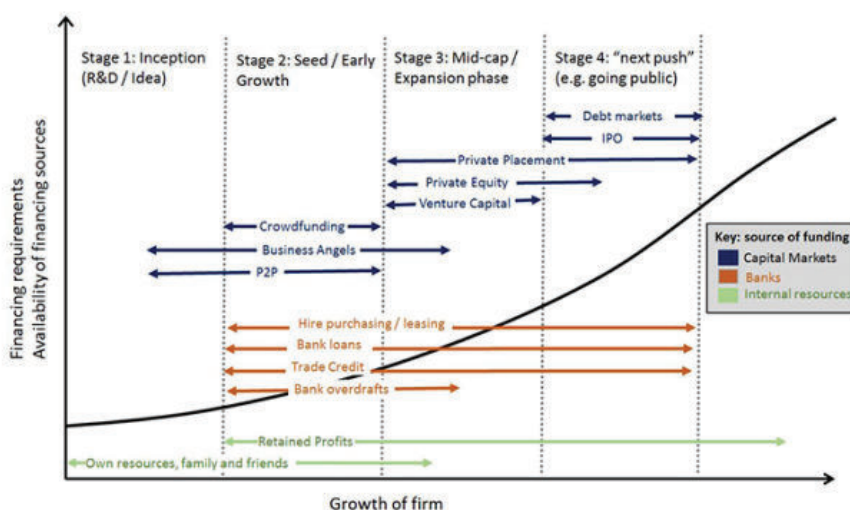
a microeconomic perspective, they involve a risk for investors, who could lose all their money. However, these days the small size of digital currency schemes makes them unlikely to pose any real risks to financial stability. Risks to monetary stability could theoretically arise in the case of a digital currency that should achieve widespread use, but this is highly unlikely.

A company's financing needs evolve as it grows and specializes. At the same time, while the economic agent moves from a start-up, to a development and eventually to a mature stage, it has different sources of income and faces different financing constraints.

Figure number 1 shows the stages in the development of a company.

### Stages in the development of a company

Figure 1



Source: European Commission. Data processed by the authors.

Private digital tools have the following advantages: they introduce fintech as a technology to reduce transaction costs in various fiat currencies and in countries with underdeveloped financial systems where many consumers are excluded from the financial system, private digital currencies can contribute to financial inclusion.

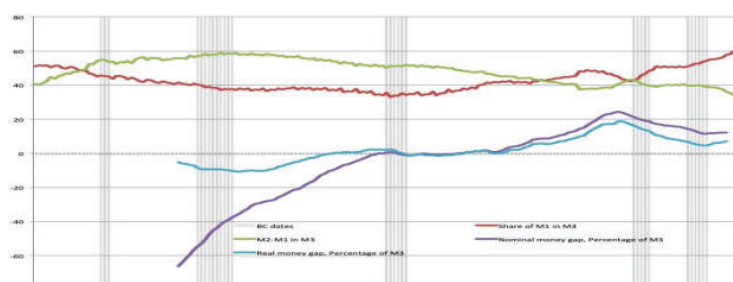
The European Central Bank has put a lot of effort into understanding the historical evolution of money in the euro area, including extrapolating data on monetary aggregates back to 1970. The information included in monetary aggregates refers to the commonly denominated money in an economy,

with more large aggregation representing cash, while smaller aggregates are broader but also include less cash.

In figure number 2 we presented the evolution of monetary aggregates and monetary gaps over a period of almost 45 years.

### Evolution of monetary aggregates and monetary gaps

Figure 2



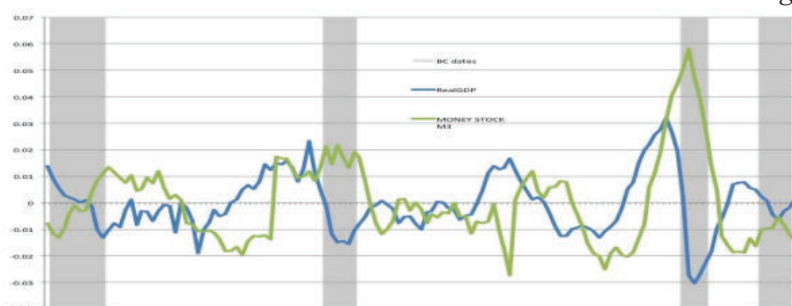
Source: European Commission. Data processed by the authors.

Bearing in mind that the euro was officially launched in January 2002, this means that the importance of the currency has only increased since its launch, reaching over 60% at the end of 2014. Not only is it historically the largest share of 1970, but it also complies with international standards. Moreover, the monetary gap was positive during the same period, implying an excess of liquidity above the equilibrium level. Taken together, this means that the preference for money has increased since the 2000s in the euro area.

Figure number 3 shows the evolution of money through the economic cycle since 1980.

### The evolution of money through the business cycle since 1980

Figure 3



Source: European Commission. Data processed by the authors.

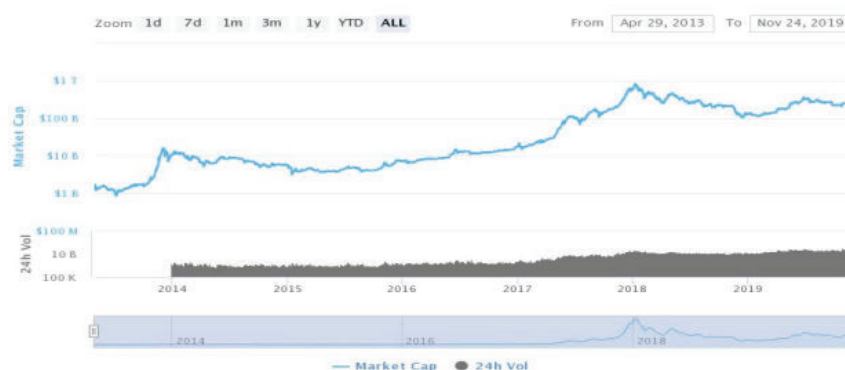
We find that while liquid money follows the business cycle very well and actually leads a bit, less liquid money is countercyclical and actually rises (falls) during recessions (expansions).

It appears that preferences for less liquid money dominate in low-growth, contractionary environments. However, in expansions, the desire to spend increases and therefore money is more liquid.

As for the total cryptocurrency market capitalization, it has grown seriously since 2014 as shown in Figure number 4.

### Total Cryptocurrency Market Capitalization (in EUR)

Figure 4



Source: European Commission. Data processed by the authors.

We find that it has increased 1000 times in less than 6 years. By the end of 2019, it is just under €1 trillion and similar in size to the total currency in circulation in the third quarter of 2019 (at €1.2 trillion). While the growth in total market capitalization has slowed somewhat since the last peak in 2018, going forward activity in this market will exceed the size of the traditional Euro forex market, which is showing its rapidly growing importance.

### Conclusions

From this study comes the conclusion that the future of today's money will be seriously improved, transformed, with beneficial but also risky effects, through the widespread emergence of cryptocurrencies.

Cryptocurrencies, such as Bitcoin, or their evidence system will have the effect of facilitating operations, but the process of upgrading and transforming money is long and difficult.

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This process will be accepted by the states of the world in the context in which it will advance with the process of digitization and modernization of national economies.

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