
American World Money by design includes self-sustainable mechanisms through a combination of Fiscal Policy and Monetary Policy to grow AWM Economy with zero inflation and zero deflation of AWMS stablecoin, measured by Personal Consumption Expenditures (PCE) Price Index, released monthly by US Department of Commerce.

a) Fiscal Policy to grow AWM economy:
   The AWM CryptoFed can adjust the permanent incentives anywhere between 6.5% and 16% range.

b) Monetary Policy to maintain zero inflation and zero deflation:
   The AWM CryptoFed can adjust the 5% interest rate paid to all AWMS holders as long as it is at minimum 1% higher than Federal Funds Rate published at the link below.
   https://www.federalreserve.gov/monetarypolicy/openmarket.htm

This brief paper is to explain how, once AWMS stablecoin is established and independent of US Dollar (USD) through the pilot in Wyoming, AWM Economy is able to maintain a permanent incentives for consumers of up to 16% of every purchase at merchants, to cover sales tax and cash back rewards without generating inflation.

1. **Assumptions**

   A) AWMS stablecoin and USD have the same ubiquity of acceptance. e.g. the same liquidity as USD. As a result, AWMS no longer needs USD reserves for backup and is able to decouple from the USD. The exchange rate between USD and AWMS will become a floating exchange rate determined by the market.

   B) CryptoFed’s AWMS incentives from 6.5% to 16% for every purchase is implemented through retail merchants and other B2C businesses.

   C) AWMS money supply propensity among M1, M2 and MZM is the same as the US Dollar defined and tracked by the Federal Reserve as discussed below.

2. **Mechanisms**

   1) Money Supply Definitions and Propensity in the US: M1, M2, MZM

   https://fred.stlouisfed.org/series/M1V
   “There are several components of the money supply,: M1, M2, and MZM (M3 is no longer tracked by the Federal Reserve); these components are arranged on a spectrum of
narrowest to broadest. Consider M1, the narrowest component. M1 is the money supply of currency in circulation (notes and coins, traveler’s checks [non-bank issuers], demand deposits, and checkable deposits). A decreasing velocity of M1 might indicate fewer short-term consumption transactions are taking place. We can think of shorter-term transactions as consumption we might make on an everyday basis.

The broader M2 component includes M1 in addition to saving deposits, certificates of deposit (less than $100,000), and money market deposits for individuals. Comparing the velocities of M1 and M2 provides some insight into how quickly the economy is spending and how quickly it is saving. MZM (money with zero maturity) is the broadest component and consists of the supply of financial assets redeemable at par on demand: notes and coins in circulation, traveler’s checks (non-bank issuers), demand deposits, other checkable deposits, savings deposits, and all money market funds. The velocity of MZM helps determine how often financial assets are switching hands within the economy.”

![Diagram of M1, M2, and MZM components]

Basically, M1 is a subset of M2 and M2 is a subset of MZM as illustrated in the diagram above. According to St. Louis Fed’s statistics, as of August 3, 2020, in Billion USD.

M1 = 5,490.1,  [https://fred.stlouisfed.org/series/M1](https://fred.stlouisfed.org/series/M1)
M2 = 18,259.6,  [https://fred.stlouisfed.org/series/M2](https://fred.stlouisfed.org/series/M2)
MZM = 21,007.4,  [https://fred.stlouisfed.org/series/Mzm](https://fred.stlouisfed.org/series/Mzm)
M₁ is only 30% of M₂ and only 26% of M₂M. In other words, the majority of money supply in the US, namely 70% of M₂ or 74% of M₂M, is in savings, CD or Money Market Funds. We assume that the AWMS$ money supply propensity is the same as this USD money supply propensity.

2) AWMS$ Money Supply Created by CryptoFed Incentives to Consumers

The incentives of CryptoFed’s 6.5% - 16% is the primary method for CryptoFed to put newly minted AWMS$ into circulation as additional money supply. It is also CryptoFed’s Fiscal Policy tool to incentivize AWMS$ spending to grow the AWM Economy. The incentives of CryptoFed’s 6.5% - 16% only applies to M₁, because by the Fed’s money supply definition above, out of M₁, M₂ and M₂M, only M₁ is the money for short-term transaction considered as consumption on an everyday basis, and the remainders of M₂ and M₂M are for savings.

3) AWMS$ Money Supply Created by AWMS$ 5% Interest Paid to All AWMS$ Holders

Given that the central banks of major countries have set close to zero interest or negative interest rates for more than a decade which is a unique phenomenon called Liquidity Trap, 5% interest earned for holding AWMS$ will be more than attractive for people to use AWMS$ for savings rather than USD. The 5% interest paid to all AWMS$ holders will be another way of putting newly minted AWMS$ into circulation as additional money supply. It is also CryptoFed’s Monetary Policy tool to incentivize AWMS$ savings rather than spending.

4) Conclusion

CryptoFed’s Fiscal Policy of 6.5% - 16% rewards incentivize AWMS$ spending, while CryptoFed’s Monetary Policy of 5% interest incentivizes savings. They have the opposite policy goals, but in combination both will lead to an equilibrium of strong AWM Economy growth with zero inflation and deflation measured by the PCE price index.

Under the assumption that AWMS$’s money supply propensity among M₁, M₂ and M₂M is the same as USD, AWMS$ money demand of M₂/M₂M (outside M₁) can absorb 70 ~ 74% of the CryptoFed’s incentives of 6.5% ~ 16% M₁ and the 5% interest paid to AWMS$ holders, because M₁ is only 30% of M₂ or 26% of M₂M. This means that only 26-30% newly minted AWMS$ generated by both the 5% interest and the 6.5% - 16% incentives will be used for subsequent purchases, which will contribute to inflation pressure. The remainder 70-74% AWMS$ will go to the savings portion of M₂/M₂M which will not contribute to inflation pressure. As a result, it is highly possible for
AWM$ demand generated by a strongly growing AWM Economy to absorb the remaining inflationary pressure presented by the residual 26-30% of newly minted AWM$ money supply.
In practice, the following tools of Fiscal Policy and Monetary Policy can further fine-tune the money supply to ensure that the AWMS inflation and deflation measured by the PCE price index is always zero.

i) **Fiscal Policy**: The CryptoFed can further adjust the incentives between 6.5% and 16%.

ii) **Monetary Policy**: The CryptoFed can further adjust the 5% interest to AWMS holders as long as it is at minimum 1% higher than Federal Funds Rate.