



Self-Sustainability Mechanisms of American World Money: CryptoFed Fiscal Policy and Monetary Policy

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 AWM\$ 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 AWM\$ 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 AWM\$ 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) AWM\$ stablecoin and USD have the same ubiquity of acceptance. e.g. the same liquidity as USD. As a result, AWM\$ no longer needs USD reserves for backup and is able to decouple from the USD. The exchange rate between USD and AWM\$ will become a floating exchange rate determined by the market.
- B) CryptoFed's AWM\$ incentives from 6.5% to 16% for every purchase is implemented through retail merchants and other B2C businesses.
- C) AWM\$ 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>

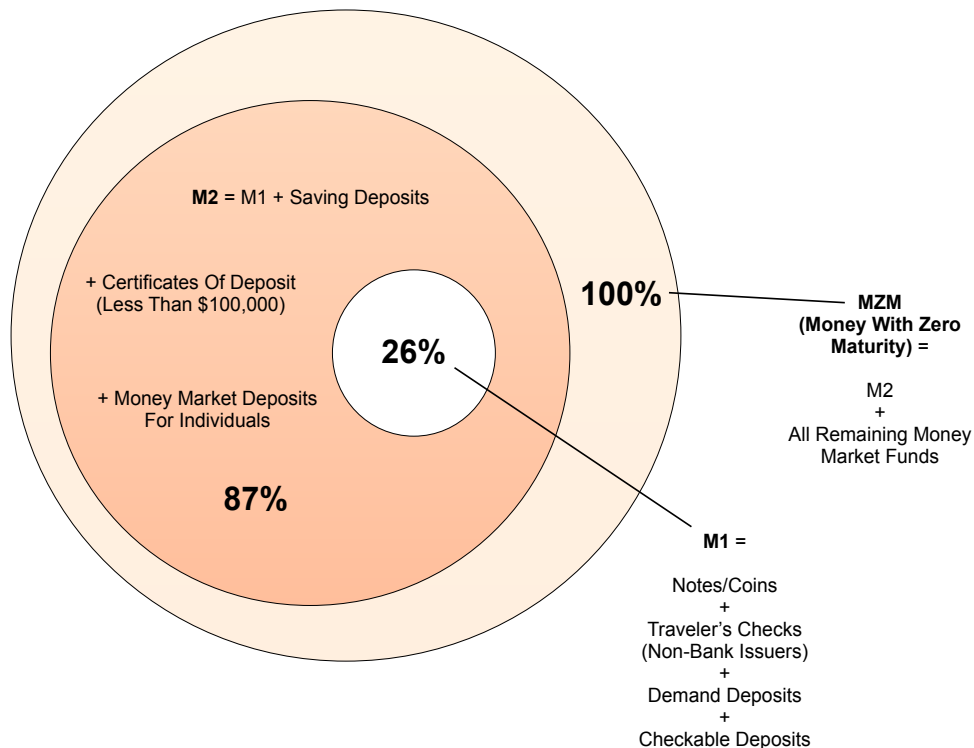
“There are several components of the money supply,; M1, M2, and MZM (M3 is no longer tracked by the Federal Reserve); these components are arranged on a spectrum of



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.”



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>

M2 = 18,259.6, <https://fred.stlouisfed.org/series/M2>

MZM = 21,007.4, <https://fred.stlouisfed.org/series/Mzm>



M1 is only 30% of M2 and only 26% of MZM. In other words, the majority of money supply in the US, namely 70% of M2 or 74% of MZM, is in savings, CD or Money Market Funds. We assume that the AWM\$ money supply propensity is the same as this USD money supply propensity.

2) AWM\$ 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 AWM\$ into circulation as additional money supply. It is also CryptoFed's Fiscal Policy tool to incentivize AWM\$ 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 MZM, only M1 is the money for short-term transaction considered as consumption on an everyday basis, and the remainders of M2 and MZM are for savings.

3) AWM\$ Money Supply Created by AWM\$ 5% Interest Paid to All AWM\$ 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 AWM\$ will be more than attractive for people to use AWM\$ for savings rather than USD. The 5% interest paid to all AWM\$ holders will be another way of putting newly minted AWM\$ into circulation as additional money supply. It is also CryptoFed's Monetary Policy tool to incentivize AWM\$ savings rather than spending.

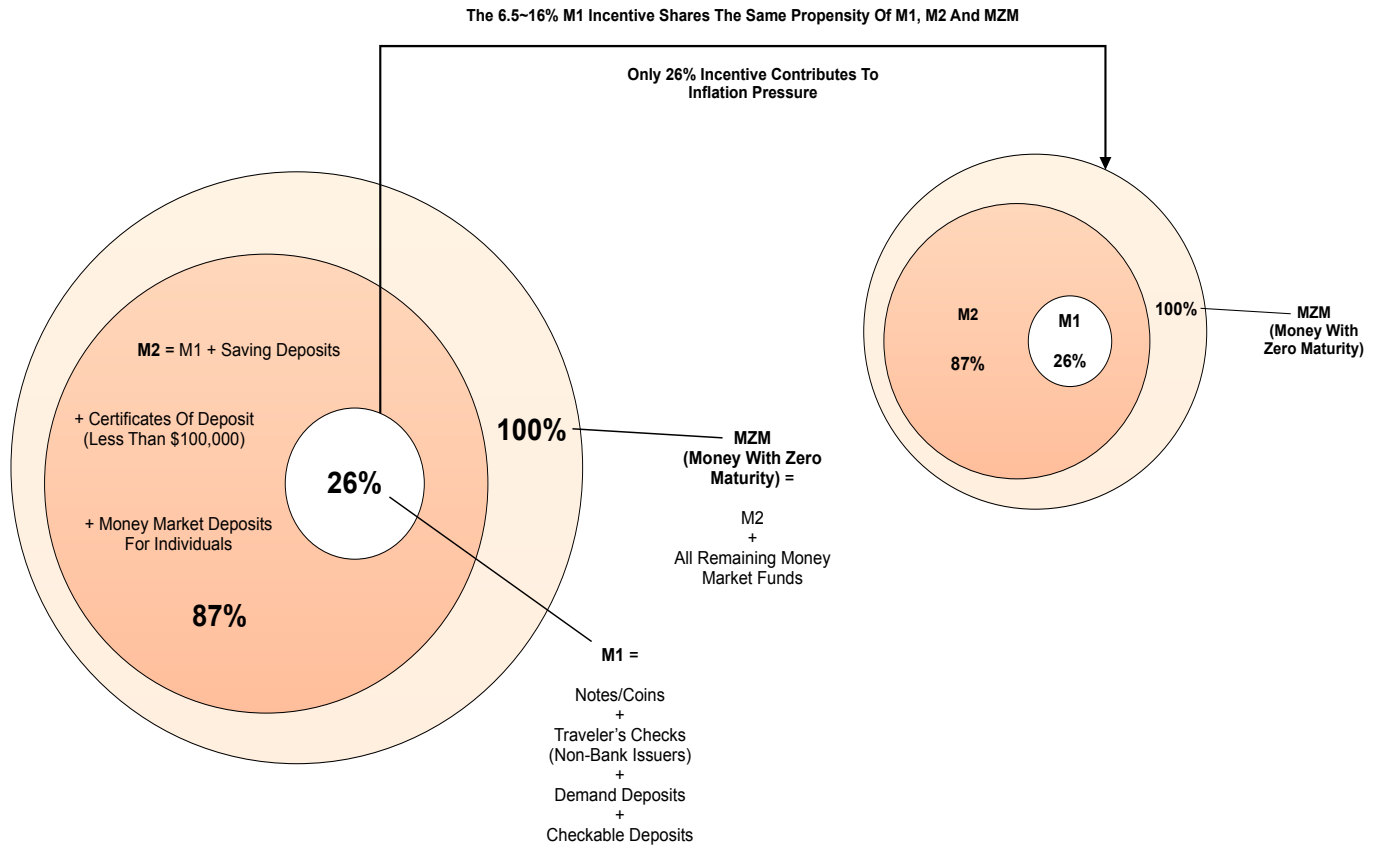
4) Conclusion

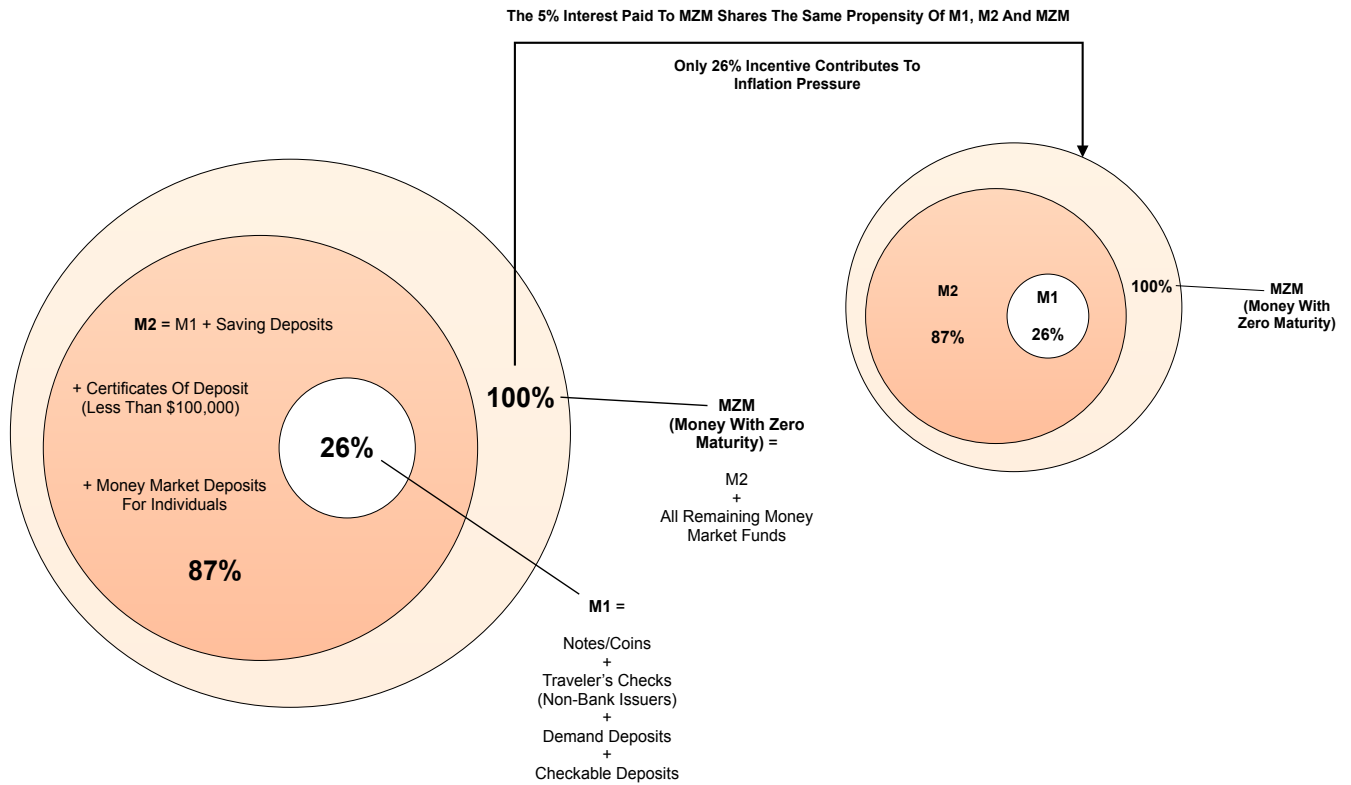
CryptoFed's Fiscal Policy of 6.5% - 16% rewards incentivize AWM\$ spending, while CryptoFed's Monetary Policy of 5% interest incentivizes savings. They have the opposite policy goals, but in combination both will lead to an equilibrium of strong AWM Economy growth with zero inflation and deflation measured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

Under the assumption that AWM\$'s money supply propensity among M1, M2 and MZM is the same as USD, AWM\$ money demand of M2/MZM (outside M1) can absorb 70 ~ 74% of the CryptoFed's incentives of 6.5% ~ 16% M1 and the 5% interest paid to AWM\$ holders, because M1 is only 30% of M2 or 26% of MZM. This means that only 26-30% newly minted AWM\$ 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% AWM\$ will go to the savings portion of M2/MZM 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.