

**Economics
Seminar
Series
2018**



**SOUTH ASIAN UNIVERSITY
FACULTY OF ECONOMICS**

Seminar

***Payment system shocks under Goods and
Financial Market Segmentation***

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Date: September 07, 2018
(Friday)
Time: 2:30 p.m.
Venue: FSI Hall, Akbar Bhawan,
Satya Marg, Chanakyapuri, New Delhi

All are Welcome

ABSTRACT

A surprise demonetization, where certain or all denominations of currency notes cease to be legal tender within a short notice, can be understood as a severe payment system shock requiring agents to immediately shift to alternative payment mechanisms. I use a short-term macroeconomic model featuring goods and financial market segmentation to analyze the effect of such a shock in an economy with substantial informality and cash dependence. I provide a quantitative characterization of the equilibrium dynamics using a deterministic and a stochastic process that mimics the recent demonetization and remonetization process in India.