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A NEW APPROACH TO SOLVING THE COLONIAL MONETARY PUZZLE:
EVIDENCE FROM NEW JERSEY, 1709-1775

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ABSTRACT

The market value of colonial New Jersey's paper money is decomposed into its real asset present value and its liquidity premium. Its real asset present value accounted for over 80, whereas its value as money per se accounted for under 20, percent of its market value. Colonial paper money was not a fiat currency. Its liquidity premium was driven by the quantity of paper money in circulation and the method of injection. The quantity theory of money performs poorly when using prices and exchange rates, but performs well when using real asset present values, to measure paper money's expected value.

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