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VALUE DECOMPOSITION AND PERFORMANCE

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ABSTRACT

I decompose Virginia's paper money into expected real-asset present value, risk discount, and transaction premium or "moneyness" value. The value of Virginia's paper money was determined primarily by its real-asset present value. The transaction premium was small. Positive risk discounts occurred in years when treasurer malfeasance was suspected. Virginia's paper money was not a fiat currency, but a barter asset, with just enough "moneyness" value to make it the preferred medium of exchange for local transactions. Compared with alternative models, my decomposition model of inside monies is superior conceptually and statistically for explaining the performance of American colonial paper monies.

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