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Risk aversion and the value of money in a class of overlapping generations models*

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Abstract. This paper studies the function of money to avoid risk. The purpose of this paper is to investigate the relationship between risk aversion and the valuation of money. Toward this purpose, the paper considers a class of overlapping generations economies with a storage technology that has stochastic constant returns to scale. The paper then provides both a necessary condition and a sufficient condition for the existence of a monetary equilibrium in each economy. One of the main results of this paper is that in a certain class of economies, a sufficient condition for the existence of an equilibrium with positively valued money is that people are sufficiently risk averse. We show that this result is not robust by comparing both Koda [2] and Kitagawa [1]. The paper also presents an example of economies, each of which guarantees the relation between risk aversion and the valuation of money.


Keywords: Money; Storage technology; Risk aversion; Portfolio choice; Overlapping generations economy.

JEL Classification Numbers: D50; D81; E40; G11.

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