

# International Monetary System



*The Era of Bimetallism  
Before 1870*



# International Monetary System

## IMS

- ❖ The *international monetary system* refers to the system and rules that govern the *use and exchange of money* around the world and between countries
- ❖ An *international monetary system* is a set of *internationally agreed rules, conventions and supporting institutions* that facilitate international trade, cross border investment and generally the reallocation of capital *between nation states*



- ❖ It should provide *means of payment* acceptable to buyers and sellers of different nationalities, including *deferred payment*
- ❖ A well-functioning system promotes *economic growth and prosperity* through the *efficient allocation of resources*, increased specialisation in *production* based on comparative advantage, and the *diversification of risk*



- ❖ It also encourages *macroeconomic and financial stability* by adjusting *real exchange rates* to shifts in trade and capital flows
- ❖ To be effective, the international monetary system must deliver both *sufficient nominal stability* in exchange rates and *domestic prices*, and timely adjustment to *shocks and structural changes*



# History of International Monetary System

- ❖ Throughout history, *precious metals such as gold and silver* have been used for trade, sometimes in the form of *bullion*, and from early history the *coins of various issuers* – generally kingdoms and empires – have been traded
- ❖ The earliest known records of *pre-coinage use of precious metals* for monetary exchange are from *Mesopotamia and Egypt*, dating from the third millennium BC



# Four Stages/Phases of International Monetary System Evolution

- ❖ *The era of bimetallism (Before 1870)*
- ❖ *Classic Gold Standard (1870-1914)*
- ❖ *Inter-war period (1915-1944)*
- ❖ *Bretton Woods system (1945-1972)*
- ❖ *Present International Monetary system (1972-present)*



# The Era of Bimetallism (Before 1870)

- ❖ *Bimetallism* is a monetary system that's based on the value of two metals, usually *gold and silver*
- ❖ *Before 1870*, the International Monetary System consisted Bimetallism, where both gold and silver coins were used as the international modes of payment
- ❖ The *exchange rates* among currencies were determined by *their gold and silver contents*



# Continued...

- ❖ Some countries were *either on a gold or a silver* standard
- ❖ *Bimetallism* was intended to *increase the supply of money, stabilise prices, and facilitate setting exchange rates*
- ❖ A major *problem* in the international use of *bimetallism* was that, with each nation *independently* setting its *own rate of exchange* between the two metals, the *resulting rates* often differed widely from country to country.



Thank You