

[The Limits of Monetary Economics: On Money As a Latent Medium of Exchange](#)

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We formulate a generalization of the traditional medium-of-exchange function of money in contexts where there is imperfect competition in the intermediation of credit, settlement, or payment services used to conduct transactions. We find that the option to settle transactions with money strengthens the stance of sellers of goods and services vis-à-vis intermediaries, and show this mechanism is operative even for sellers who never exercise the option to sell for cash. These latent money demand considerations imply that in general, in contrast to current conventional wisdom in policy-oriented research in monetary economics, monetary policy remains effective through medium-of-exchange transmission channels—even in highly developed credit economies where the share of monetary transactions is negligible