



Econorr
Design

Monetary Policy

Price stability and stable coin

Goal: Stablecoins are privately issued currency with their own monetary policy.

How does the various monetary policy mechanism creates the most stable prices?



Agenda

1. Monetary policy of stable coins
2. Price stability analysis given monetary policy
3. Crash resistance: fundamental drives of stable coins



Monetary Policies



Reserve based

Offchain reserve

USDC

UDST

GUSD

HUSD

BUSD

PAX

Algorithmic

UST

AMPL

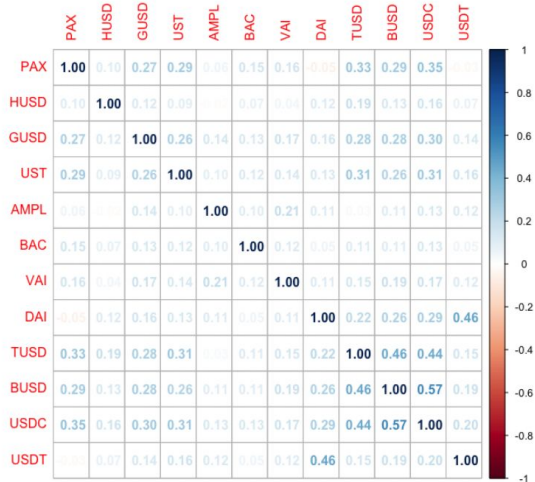
BAC

Mixed Policy

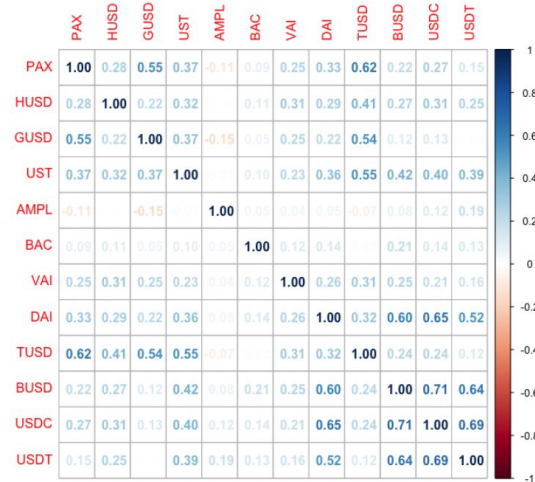
DAI

VAI

Price Correlation Analysis



(a)



(b)

Figure 1: Correlations between stablecoin returns in a) January - December 2021 and b) in November 2021.

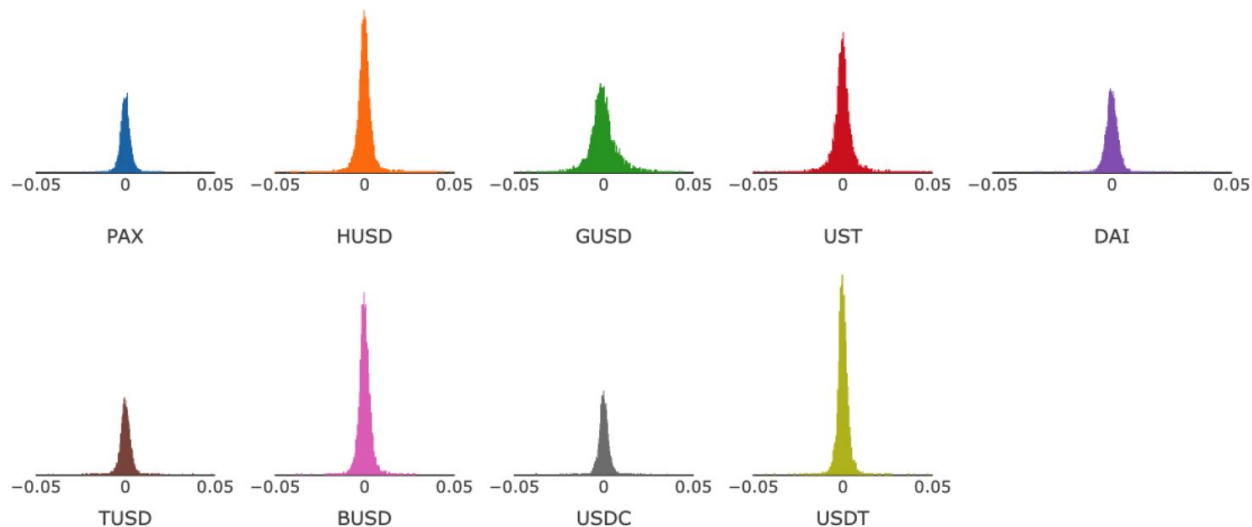
Correlation implication

More correlated in Nov than rest of year combined

1. Growth in market size
2. High correlation between off-chain based collateral
3. AMPL and BAC (algo stablecoins with lowest market size of all) uncorrelated with major stablecoins



Price Stability Analysis

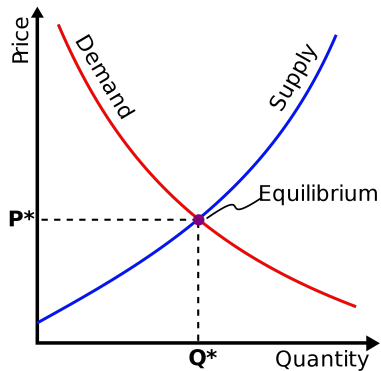


Price stability

1. GUSD and UST highest volatility
2. USDC least volatility and least likely to produce extreme price deviation
3. DAI closet volatility to USDC with a mean >\$1.0000 and trades constantly above peg.



Fundamental Drivers of Stable Coin



Demand

Offchain utility

UST

Onchain utility in stablecoin ecosystem

USDC

Onchain utility in wider ecosystem

DAI

Supply

Drivers of token supply increase

- Increase in fiat-collateral
- Increase in underlying onchain-collateral
- Price volatility in secondary token

Considerations

Base currency for trade: USDT

Secondary market for arbitrage

Price volatility of underlying collateral

Network growth size

Volatility of currency

Secondary token, if any





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