In November the leaders of the jihadist group the Islamic State in Iraq and Syria (ISIS) declared that as part of their effort to act like a national government, they would create their own national currency. Based on the tradition of an ancient Islamic Caliphate, they declared that the currency would be a ‘metallic’ system consisting of coins made from precious metals: gold, silver, and copper.

Write a short essay (350-500 words) discussing the benefits and costs of such a metallic monetary system for an aspiring new country, using our theories from class. Your essay should address the following points. First, what are the disadvantages of such a system for a country? Consider in your discussion how this metallic money system shares disadvantages of the Gold Standard in European history, and how it has disadvantages distinct from the historical Gold Standard. Second, discuss what advantages a metallic system could have for a newly created nation with no central bank. And third, formulate a recommendation for which of the monetary systems studied in class is most suitable for the case of ISIS (gold standard, fixed exchange rate - and to which currency should it peg, currency board, monetary union, or freely floating exchange rate). Explain your reasoning. You might wish to consider the exchange rate regimes used by countries neighboring ISIS’ territory as an example, especially other oil exporters.

To help give you some facts to use in supporting your arguments, I have posted some recent news articles on the course webpage. This essay must be typewritten and printed out, not handwritten. It also should be in essay form: instead of using graphs and equations, explain the economic logic in words.