Units of Account and the Informational Role of Prices

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Abstract

Prices aggregate the information in the economy by sending signals about the scarcity of the goods traded. However prices can be expressed in terms of different units of account. Does the choice of the unit of account matter for informational efficiency? I develop a model where the choice of unit of account is not neutral. Multiple units of account can sometimes help convey more information, but can also make it harder to compare prices across markets. A common unit of account can reduce relative price risk for some transactions but increase relative price risk for other transactions.