

## **Abstract**

A common policy to decrease counterfeiting is to introduce new-style currency that is harder and more expensive to counterfeit. Upon introducing new-style currency, government may withdraw old-style currency from circulation with or without imposing a deadline for private holders to exchange old-style money for new-style. The withdrawal policy affects the length of time it takes for the removal of old-style currency to complete and, thus, have impacts on the effectiveness of decreasing counterfeiting. We use a random matching model to study the effect to stop counterfeiting of different withdrawal policies accompanying the issue of new-style currency. We find that, if the enforcement effort against counterfeiting is not high enough, the introduction of new-style currency will not achieve a steady state where counterfeiting is eliminated. If government withdraws old-style currency more aggressively, it takes shorter time to eliminate counterfeiting. However, seeing the counterfeit money start to decrease, government should not make a premature judgment that the policy of eliminating counterfeiting has achieved its purpose. If government wrongly makes the judgment and decreases its effort in confiscating counterfeiting money as well as withdrawing old-style currency, the counterfeiting problem may resume.