

# **The economics of banknote counterfeiting: Economic theory and evidence for Bolivia**

**Sergio M. Cerezo Aguirre**

**Cristina Fajardo Estrada**

## **Abstract**

This document presents an analysis about banknote counterfeiting, which will be the baseline to propose political measures against this criminal practice.

The first section of this paper analyzes the behavior of: a) the population regarding the conditions which encourage the action of checking the security features of banknotes; b) the counterfeiter regarding his priority to maximize his benefits; and c) the central bank, which seeks to minimize its reputation and fighting counterfeiting costs. By using Game Theory, the second section analyzes the behavior of the counterfeiter and his interaction with the central bank policies. In addition, we analyze the counterfeiting historical data for Bolivia, along with the activities that Central Bank of Bolivia (CBB) implemented to stand against the counterfeiting.

Finally, we assess the most relevant variables which should be considered by the CBB to accomplish a change in the banknote family, according to the Game Theory of "first to play".

**JEL Classification:** C72, D81, E49

**Keywords:** Money counterfeiting, uncertainty, noncooperative games