



\$ Money \$

How is it used?

What forms does it take?

Where does it get its value from?

Three uses of money

1. Medium of Exchange – money is used to tell how much a good is worth when buying or selling something
 - Simpler than bartering



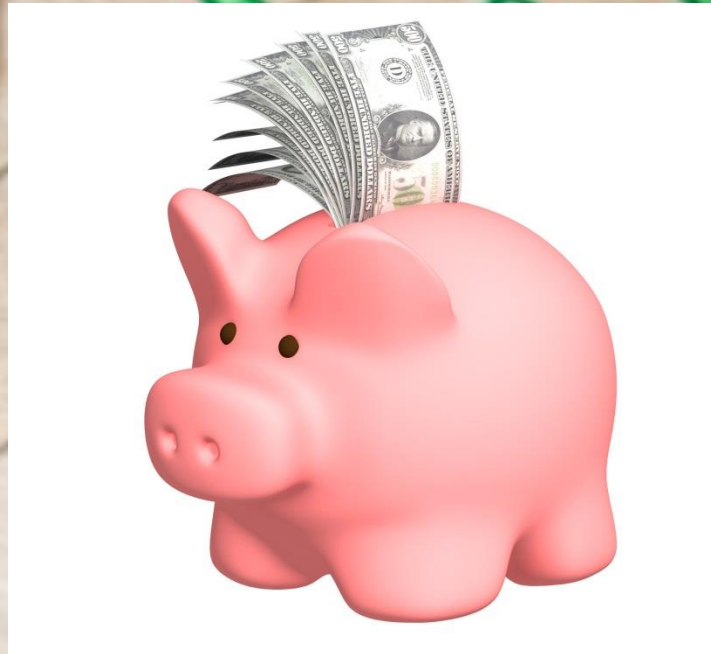
Three uses of money

2. Unit of Account – Money can be used to compare the value of goods and services



Three uses of money

3. Store of Value – the money will be worth the same if you save it rather than spend it
-Problem: Inflation



How do countries select money?



or



- Money has to take a test.

Test 1 - Durability

- Money has to be able to last a long time
 - And if it wears out (gets old) a government can easily replace the money.



Test 2 - Portability

- Money needs to be easy to carry with you and transfer (give from one person to another)

Easy?



Test 3 Divisibility

- Money needs to be able to be easily divided into smaller amount
 - need to be able to give change

Can I divide this up?



Test 4 - Uniformity

- The money is always the same.
 - Makes it easy for a unit of account

1-Euro Designs by Country



Obverse (same for all countries)



Austria



Belgium



Finland



France



Germany



Greece



Ireland



Italy



Luxembourg



The Netherlands



Portugal



Spain

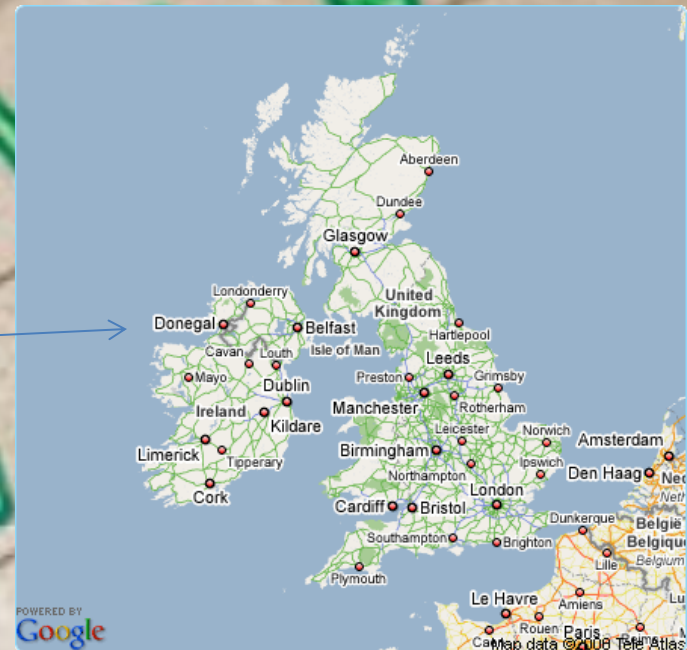
Test 5 - Limited Supply

- Not everyone can make and get the money. The money must be scarce. Otherwise, there would be inflation.



Test 6 - Acceptability

- People must agree to take your money
 - They agree because they can use your money elsewhere



Types of Money

1. Commodity Money

- Money that can be consumed and/or used to buy and sell things.



Types of Money

2. Representative Money

– Something that can be used as money and exchanged for something else, but is not money.

- Example:
- You write a promise on a piece of paper to pay someone



Types of Money

3. Fiat Money

- the money that the government declares to be the official money of the country



Where does Money get its value?????

- Gold Standard

- Governments use to have to back up money with quantities of gold or silver
- Problem: US began printing more money
 - Eventually only 10% of money backed by gold



Where does Money get its value?

- 1971
 - Nixon ends the Gold Standard
 - Money is now just paper
 - Money now regulated by US Government
 - Prints more based on need
 - Supply and Demand
 - Printing too much devalues money (Inflation)
 - **People's belief in value of money gives it power**