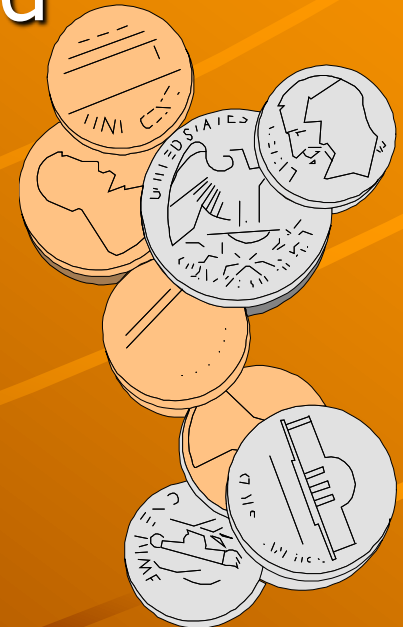
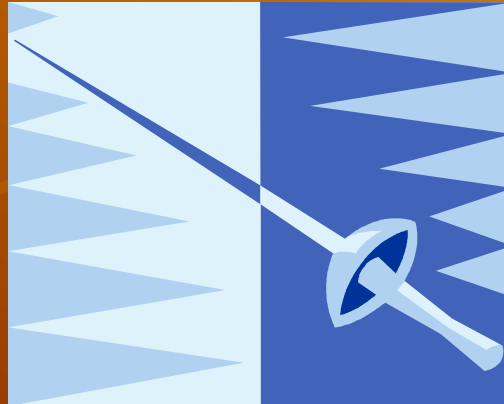


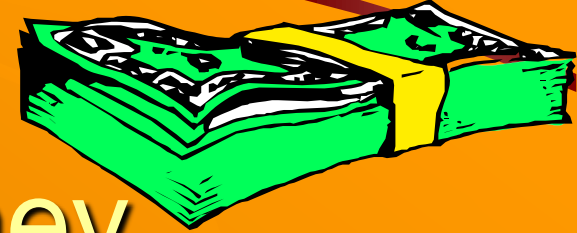
Chapter 10 Section 1

Money: Its Functions and Properties



◆ Money: anything that people accept in exchange for goods and services.





Functions of Money

- ◆ 1. Medium of Exchange: means through which goods and services can be exchanged.
- ◆ Without money must barter. This requires a double coincidence of wants (I have what you want, you have what I want)



Functions of Money

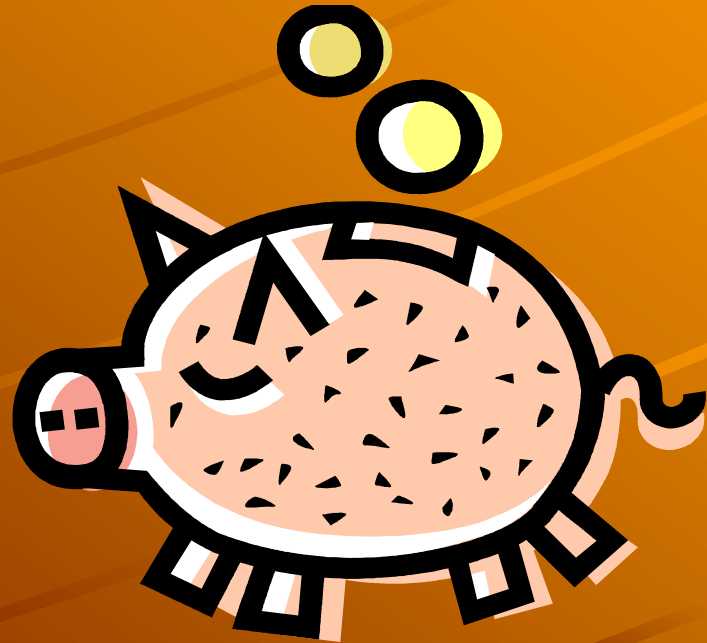
2. Standard of Value: You can compare prices.

– Example: Gas costs \$3, soda costs \$1.
Gas costs 3 sodas, Soda costs 1/3 gas.



Functions of Money

- ◆ 3. Store of Value: holds its value over time.
 - You can save money to make purchases at a later date.



Properties of Money

◆ Must be:

- Durable, sturdy (doesn't fall apart in the wash)
- Portable (fits in your wallet)
- Divisible (you can make change)
- Uniform (consistent size, every quarter looks the same)



Properties of Money

◆ Must be:

- Stable value (the amount of goods you can buy with it doesn't change too quickly)
- Scarce (there can't be too much of it, loses value)
- Acceptable (society must agree on what they'll accept as money)

Types of Money

◆ Commodity: has value because of what it's made of.

- Gold
- Silver
- Salt
- Cows



Types of Money

- Representative Money: paper money backed by something tangible (you can touch).
- Receipts issued so that people wouldn't have to carry around a heavy or awkward object.
- Gold standard: used in US until 1970. Each dollar was worth a specific amount of gold.

Types of Money

◆ Fiat Money: has value because the govt says so.

- Must be accepted by citizens
- Govt must be careful not to print too much: loses its value



Assignment:

✦ Choose one of the following items, and write a paragraph explaining how well or poorly it fits the properties and functions of money.

- Seashells
- Rocks
- Gold
- Cows
- Olive oil
- Salt
- Swords
- Corn

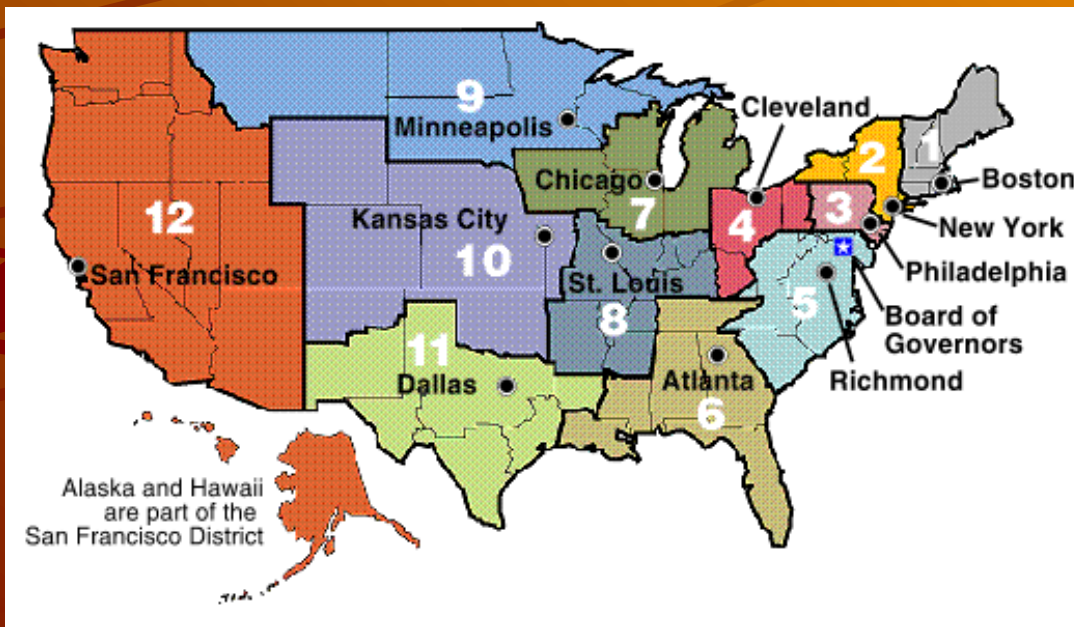
Which would you rather have?



Money in the US

◆ *What is money?*

- Is it only paper and coins?*
- There are a few definitions of money.*



Money in the US

- ◆ M1: narrow definition. Can you take it to the store and buy stuff with it? If yes, then M1.
 - Currency
 - Checking account and debit cards
 - Traveler's checks
 - Credit cards? NO!! CC are not money!! They are a loan. The M1 is used to pay your bill.

Money in the US

◆ $M2 = M1 +$

- Savings accounts

- Money market mutual funds (a very safe, liquid mutual fund)

- Small time deposits (like CD's, which can't be drawn on for a certain amount of time)

- Liquidity: how easy it is to turn something into cash

