



Chapter 10: Money and Banking Section 1

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ECONOMICS

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Objectives

1. **Describe** the three uses of money.
2. **List** the six characteristics of money.
3. **Analyze** the sources of money's values.



Key Terms

- **money:** anything that serves as a medium of exchange, a unit of account, and a store of value
- **medium of exchange:** anything that is used to determine value during the exchange of goods and services
- **barter:** the direct exchange of one set of goods or services for another
- **unit of account:** a means for comparing the values of goods and services
- **store of value:** something that keeps its value if it is stored rather than spent



Key Terms, cont.

- **currency:** coins and paper bills used as money
- **commodity money:** objects that have value in and of themselves and that are also used as money
- **representative money:** objects that have value because the holder can exchange them for something else of value
- **specie:** coined money, usually gold or silver, used to back paper money
- **fiat money:** objects that have value because a government has decreed that they are an acceptable means to pay debts



Introduction

- How does money serve the needs of our society?
 - Money provides means for comparing values of goods and services.
 - Money also serves as a store of value.
 - Without money, we wouldn't be able to get the things that we need and want.



Three Uses of Money

- Money is anything that serves as a:
 - Medium of exchange
 - A unit of account
 - A store of value

THE THREE FUNCTIONS OF MONEY

Medium of Exchange



Unit of Account



Store of Value



Barter

- Without money, people would acquire goods and services through barter.
- Many parts of the world still use bartering but as an economy becomes more specialized, it becomes too difficult to establish the relative value of items to be bartered.
- Money, therefore, makes exchanges much easier.
 - It also provides a means for comparing the value of goods and services.
 - Except during periods of inflation, money usually functions as a good store of value.



Currency

- The coins and paper bills people use as money are called currency.
- In the past, people have used many things as currency including cattle, salt, precious stones, fur, and dried fish.
- These things would not serve as good currency in today's world because they lack at least one of the six characteristics of money.



The Six Characteristics of Money

- The six characteristics of money are:
 - Durability
 - Portability
 - Divisibility
 - Uniformity
 - Limited supply
 - Acceptability



Durability and Portability

- Durability
 - Money must be able to withstand the physical wear and tear that comes with being used over and over again.
- Portability
 - Money must be easily carried by people. Paper money and coins work because they are small and light.



Divisibility and Uniformity

- Divisibility
 - Money must be easily divided into smaller denominations.
- Uniformity
 - People must be able to count and measure money accurately.



Limited Supply and Acceptability

- Limited Supply
 - Money would lose its value if there was an unlimited supply of it.
 - Therefore, the Federal Reserve regulates the amount of money in circulation in the United States.
- Acceptability
 - Everyone in an economy must be able to take the objects that serve as money and exchange them for goods and services.



What Makes Money Valuable?

- There are actually several possible sources of money's value depending on whether it is commodity money, representative money, or fiat money.



◀ **Commodity money**

Objects like this wheat once served as commodity money.

▲ **Representative money**

Representative money like this silver certificate could be exchanged for silver.

◀ **Fiat money**

Today, Federal Reserve notes are fiat money, decreed by the federal government to be an acceptable way to pay debts.



Commodity Money

- Checkpoint: Why is commodity money impractical for use in our modern society?
 - Commodity money consists of objects that have value in and of themselves, like cattle, and that are also used as money.
 - Commodity money lacks several characteristics that make objects good to use as money, such as divisibility and portability.



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Representative Money

- Representative money makes use of objects that have value solely because the holder can exchange them for something else of value.
- Early representative money took the form of paper receipts for gold and silver.
 - People left their gold in goldsmith's safes and would carry paper ownership receipts to show how much gold they owned.
 - During the American Revolution, problems arose with representative money called Continentals because the Continentals were not backed by gold or silver and were therefore useless.



Fiat Money

- United States money today is fiat money, which has value because a government has decreed that it is an acceptable means to pay debts.
 - Citizens have confidence that the money will be accepted.
 - Because the Federal Reserve controls the supply, it remains in limited supply, which makes it valuable.



Review

- Now that you have learned about how money serves the needs of our society, go back and answer the Chapter Essential Question.
 - How well do financial institutions serve our needs?

