





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

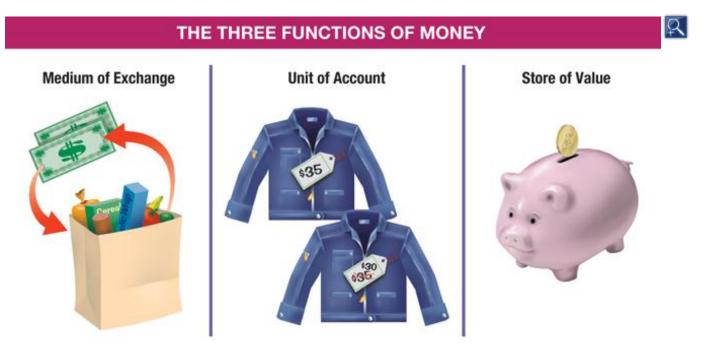


- How does money serve the needs of our society?
 - Money provides means for comparing values of goods and services.
 - Money also serves as a store of value.
 - Without money, we wouldn't be able to get the things that we need and want.

Chapter 10, Section 1

Three Uses of Money

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





- 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

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- 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.



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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.



ECONOMICS

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?