Money Basics

$ £ € ¥

The Functions of Money

• Medium of Exchange
• Storer of Value
• Unit of Account

Money Basics

Money as Medium of Exchange

• Money liberates us from the perils of a barter economy.
  – People who literally work for money, as opposed to what money can buy, are candidates for psychotherapy.
  – However, the cost of exchanging goods and services for each other directly instead of using a medium of exchange is very high.

Money Basics

Example

• I teach for the things money can buy. If I want new tires for my car, I go out and buy them with money.
• I do not expect you to show up with four new tires for my car, though it is as if you do.

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This is big stuff. We would probably all be living as cavemen without money. Societies without money are frightening places.

Money Basics

Money as a Storer of Value

Fred has the following assets:
- Stocks with a market value of $400,000
- Government Bonds worth $100,000
- A $50,000 Certificate of Deposit
- $500 in Currency
- $10,000 in a checking account at the 87th National Bank
- $15,000 in gold coins

How much money does he have?
Money Basics

Money as a Storer of Value

Fred has the following assets:
- Stocks with a market value of $400,000
- Government Bonds worth $100,000
- A $50,000 Certificate of Deposit
- $500 in Currency
- $10,000 in a checking account at the 87th National Bank
- $15,000 in gold coins

These are all storers of value, but which are money?

How much money does he have?

Is a Credit Card Money?
- Medium of Exchange: Yes
- Storer of Value: No
- Unit of Account: No

Credit Cards are useful and valuable, but so too are many other things that are also not money.

Money as a Unit of Account

<table>
<thead>
<tr>
<th>Currency</th>
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<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>Dollar</td>
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</tr>
<tr>
<td>¥</td>
<td>Yen</td>
<td>Japan</td>
</tr>
<tr>
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Not all countries have their own currency. Ecuador and Panama use the US Dollar.