

Money Basics



The Functions of Money

- Medium of Exchange
- Storer of Value
- Unit of Account

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.

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.*

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. This is big stuff. We would probably all be living as cavemen without money.
- I do not expect you to show up with four new tires for my car, *though it is as if you do.* Societies without money are frightening places.

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 as a Storer of Value

Fred has the following assets:
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How much money does he have?

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

Money as a Storer of Value

Fred has the following assets:

Stocks with a market value of \$400,000 **NO**

Government Bonds worth \$100,000 **NO**

A \$50,000 Certificate of Deposit **?**

\$500 in Currency **YES**

\$10,000 in a checking account at the 87th National Bank

\$15,000 in gold coins **NO**

How much money does he have?

Is a Credit Card Money?

- Medium of Exchange
- Storer of Value
- Unit of Account

Is a Credit Card Money?

- Medium of Exchange **Yes**
- Storer of Value **No**
- Unit of Account **No**

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

\$	Dollar	United States
¥	Yen	Japan
£	Pounds Sterling	United Kingdom
€	Euro	European Union

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		European Union

Not all countries have their own currency. Ecuador and Panama use the US Dollar

End

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