## The functions and characteristics of money

Money makes it possible for businesses to obtain what they need from suppliers and for consumers to obtain goods. Money is defined as anything customarily used as a medium of exchange, a unit of accounting, and a store of value. The basis of the market economy is voluntary exchange; the exchange involves money in return for goods or services.

### The functions of money

Most people think of money as bills, coins, and checks. Historically, money might be shells, gold, or even goods such as sheep. Economists identify money by the presence or absence of certain functions. Anything that is used as a medium of exchange, a unit of accounting, and a store of value is considered money. There are three functions of money:

1. Medium of Exchange

To say that money is a medium of exchange means that a seller will accept it in exchange for goods or services. Most people are paid for their work in money, which they then can use to buy whatever they need or want. Without money people would have to barter - exchange goods and services for other goods and services. Barter requires what economists call a double coincidence of wants. Each party to a transaction must want exactly what the other person has to offer. This situation is rare. As a result, people in societies that barter for goods spend great amounts of time and effort making trades with one another. Bartering can work only in small societies with fairly simple economic systems.

1. Unit of Accounting

Money allows people to compare the values of goods and services in relation to one another. Money that is a measure of value functions in this way as a unit of accounting. Each nation uses a basic unit to measure the value of goods, as it uses the foot or meter to measure distance. An item for sale is marked with a price that indicates its value in terms of that unit. Using money as the single unit of accounting provides a simple and convenient way to compare the values of various items. By using money prices as a factor in comparing goods, people can determine whether one item is a better bargain than another. A single unit of accounting also allows people to keep accurate financial records - records of debts owed, income saved, etc. Businesspeople can better calculate their profits and losses over the years by using a single money unit of accounting.

1. Store of Value

Money also serves as a store of value. You can sell something, such as your labour, and store the purchasing power that results from the sale in the form of money for later use. People usually receive their money income once a week, once every two weeks, or once a month. However, they usually spend their income at different times during a pay period. To be able to buy things between paydays, a person can store some of his or her income in cash and some on a bank account.

### The types and characteristics of money

Anything that people are willing to accept in exchange for goods can serve as money. At various times in history, cattle, salt, animal hides, gems, and tobacco have been used as mediums of exchange. Each of these items has certain characteristics that is better or worse than others for use as money. Precious metals, particularly gold and silver, are especially well suited as mediums of exchange, and have often been used as such throughout history. It is only in more recent times that paper money has been widely used as a medium of exchange.

Mediums of exchange such as cattle and gems are considered commodity money. They have a value as a commodity, or good, aside from their value as money. Cattle are used for food and transportation. Gems are used for jewelry. Representative money is money backed by - exchangeable for - some commodity, such as gold or silver. It is not in itself valuable for nonmoney uses, but it can be exchanged for some valuable item. Like commodity money, the amount of representative money circulation, or in use by people, is limited because it is linked to some scarce good, such as gold.

## Types of money in the United States

Money Is More Than Cash

When you think of money, you may think only of paper bills and coins. What does it mean to have “money in the bank”?

Money and Near Moneys

Money in use today consists of more than just currency. It also includes deposits in checking and savings accounts in banks and savings institutions, plus certain other investments.

Currency.

All United States coins in circulation today are token coins. The value of the metal in each coin is less than its exchange value. A quarter, for example, consists of a mixture of copper and nickel. If you melted down a quarter - which is illegal - the value of the resulting metal would be less than 25 cents. The Bureau of the Mint, which is part of the Treasury Department, makes all coins. Of the currency in circulation in the United States today, about 9 percent is in coins.

Most of the nation’s currency is in the form of Federal Reserve notes. Federal Reserve banks issue these notes. The Bureau of Printing and Engraving, also part of the Treasury Department, prints all Federal Reserve notes. They are issued in denominations of $1, $5, $10, $20, $50, and $100. United States notes make up less than 1 percent of the paper money in circulation.

Checks.

A checking account is money deposited in a bank that a person can withdraw at any time by writing a check. The bank must pay the amount of the check when it is presented for payment, i.e., on demand.

Credit Cards and Debit Cards.

Even though many people use their credit cards to purchase goods and services, the credit card itself is not money. It does not act as a unit of accounting nor as a store of value. The use of your credit card is really a loan to you by the issuer of the card, whether it is a bank, retail store, gas company, or American Express. Basically, credit card “money” represents a future claim on money that you will have later. Credit cards defer rather than complete transactions that ultimately involve the use of money. The debit card automatically withdraws money from a checkable account. When you use your debit card to purchase something, you are in effect giving an instruction to your bank to transfer money directly from your bank account to the store’s bank account. The use of a debit card does not create a loan. Debit card “money” is similar to checkable account money.

Near Moneys.

Numerous other assets are almost, but not exactly, like money. These assets are called near moneys. Their values are stated in terms of money, and they have high liquidity in comparison to other investments, such as stocks. Near moneys can be turned into currency or into a means of payment, such as a check, relatively easily and without the risk of loss of value. For example, if you have a bank savings account, you cannot write a check on it. You can, however, go to the bank and withdraw some or all of your funds. You can then redeposit it in your checking account or take some or all of it in cash. Time deposits and savings-account balances are near moneys. Both pay interest, and neither can be withdrawn by check. Time deposits require that a depositor notify the financial institution within a certain period of time, often 10 days, before withdrawing money. Savings accounts do not usually require such notification.

The Money Supply

The narrowest definition of the money supply consists of money that can be spent immediately and against which checks can be written. It includes currency, traveler’s checks, and checkable deposits.

### Useful phrases

* make a sale, be on sale, unit sales, sales figures, sales forecast, sales growth, sales turnover, sales volume
* direct costs, indirect costs, fixed costs, variable costs
* make a profit vs. make a loss
* currents assets (money, investments, stocks of goods), fixed assets (equipment, machinery, buildings), intangible assets (reputation, brands)
* **Use a dictionary to find the difference in the following groups:**

1. make a profit & make a loss

2. extravagant & frugal/economical

3. a current account & a deposit account

4. a loan & a mortgage

5. to deposit money & to withdraw money

6. a wage & a salary

7. broke & bankrupt

8. to credit & to debit

9. a discount & a refund

10. something which was a bargain & something which was overpriced

11. worthless & priceless

12. save money & invest money

13. inflation & deflation

14. income & expenditure

15. to lend & to borrow