

CONCEPT: THE FUNCTIONS OF MONEY; THE KINDS OF MONEY

- **Money** is a set of assets that people are generally willing to accept in exchange for goods and services

□ Money is useful because it eliminates the need for the “**double coincidence of _____**”

A barter economy only trades goods for other goods → _____		
Brick Master is a builder who would like to trade his extra clay for lumber	Sir Lumber is a carpenter who would like to trade his extra lumber for wheat	Admiral Wheat is a farmer who would like to trade his extra wheat for lumber
It is difficult to get what you want without the use of money!		

- The **functions** of money:

- **Medium of Exchange** – an item used for trading goods rather than for its _____
 - > US Dollars are not consumed by anyone, rather just used to trade for goods and services
- **Unit of Account** – the measure used to _____ and make calculations
 - > Money allows for one set price set, for example, in US Dollars (one lumber = \$5)
 - > Without money, one lumber could be worth, for example, two wheat or three bricks or one sheep
- **Store of Value** – ability to _____ purchasing power over time
 - > You may trade your goods and services now, save the money, and use it later for goods and services
 - > **Standard of Deferred Payment** – allows for trading of goods _____
 - Allows for borrowing and lending
- Some assets hold wealth (such as stocks, bonds, real estate), but are not money
 - > **Liquidity** – how easily an asset can be converted into cash

- The **kinds** of money:

- **Fiat Money** – Only has value because we say it has value (government-mandated currency)
 - > US Dollars have no value outside of their use as money
- **Commodity Money** – Has value in other uses, but is also used as money
 - > Gold has been a medium of exchange for millennia, but has other uses than money
 - Jewelry
 - Electronics
 - Gold Teeth