

Topic 1: Purposes of Money

<p>Learning outcomes:</p> <ul style="list-style-type: none"> define the purposes of money; and outline its key features. 	<p align="center">Key terms:</p>									
<p>Items previously used as payment:</p> <p>The use of valuable items such as cattle or grain as 'money' can be traced back to around 9000 to 6000 BCE. Other items that communities have used in the past include:</p> <ul style="list-style-type: none"> cowrie shells, pigs, feathers, stones, leather, salt, oxen, vodka. <p>Metals, including gold, were valued because they could be used to make weapons, tools and jewellery. Pieces of metal began to be used as 'money', too.</p>	<p>Acceptable Barter Current account Denomination Divisible Double coincidence of wants Durable Face value Fiduciary value Homogeneous Inflation Intrinsic value</p> <p>Legal tender Means of exchange Money Payment mechanism Portable Purchasing power Rate of exchange Recognisable Representational value</p> <p>Scarce but sufficient</p> <p>Store of value Transaction Unit of account</p>	<p>One of the key features of money – to be widely accepted. To exchange goods and services for other goods and services without using money. Bank/building society accounts where people can store their money in the form of electronic balances & withdraw it to make payments. A group of coins or notes that share the same face value. A key feature of money – to be easily divided into amounts of different value. A situation in which two people have goods or services to trade and each wants what the other person can provide. A key feature of money – to be strong enough to be reused in many transactions. The value marked on a coin or note (eg 1p, 2p, 5p, £5, £10). Value based on trust in the banking system. A key feature of money – to look and feel the same as other coins and notes of the same denomination. A rise in prices, which means that the purchasing power of money falls. The value that an item has in itself, eg a bag of rice has intrinsic value because it is a staple food; a solid gold coin has intrinsic value because it is made of a precious metal; a banknote does not have intrinsic value because it is a piece of paper. Coins or banknotes that must be accepted if offered in payment of a debt A function of money – to allow people to make payments. Anything widely accepted as a means of making payments. A means of transferring money from one account to another eg debit card, cheque. A key feature of money – to be small and light enough to carry around easily. The quantity of goods or services that money can buy. How much one item is worth in terms of a different item, eg one bag of flour is worth four nails, one British pound is worth 1.5 euros. A key feature of money – to be easily identified as genuine money. The value that an item represents rather than the value it has in itself: a banknote is just a piece of paper but it represents the value that is printed on it. A key feature of money – to be available in sufficient quantities to meet people's needs but not in such quantities that the value of money falls. An attribute of money that allows people to store money now and spend it later. Buying or selling something. A function of money – to allow people to compare prices and to measure the value of money in a bank account, etc.</p>								
<p>Origins of the word money:</p> <p>The word 'money' itself is thought to have its roots in Ancient Rome, where a mint was located next to a temple to the goddess Juno Moneta (meaning Juno the Protector). The coins produced at this mint from about 300 BCE onwards bore an image of the goddess and became known as <i>moneta</i>, later 'money'.</p> <p>Paper notes as money:</p> <p>China developed the idea of paper banknotes around the seventh century CE. Merchants who traded high-value goods found it impractical to carry large quantities of copper coins. Instead they deposited the coins with a trusted person, who gave them written receipts stating how much was stored in their name. Rather than paying for goods with the actual coins, merchants paid by passing the receipt for the coins to the person selling the goods, who could claim the coins in storage. Over time, people no longer claimed the coins from storage because buyers and sellers agreed that the banknote represented the value of the coins and would accept the banknote as payment, knowing they could use it to make payments of their own.</p>	<p>LETS:</p> <p>A LETS (Local Exchange Trading System) is a local network that enables people to exchange goods and services with each other without using money.</p> <p>Purchasing Power:</p> <p>The purchasing power of money is the quantity of goods/services it can buy. Inflation can reduce the purchasing power of the money saved over time. For example, £100 in three years' time will buy fewer goods than £100 today</p>	<table border="1"> <thead> <tr> <th data-bbox="763 922 1357 957">Features of Money:</th> <th data-bbox="1357 922 2206 957">Functions of Money</th> </tr> </thead> <tbody> <tr> <td data-bbox="763 957 1357 1265"> In order to fulfil its purposes, money needs to have certain features. Money must be: <ul style="list-style-type: none"> acceptable durable recognisable portable stable scarce but sufficient divisible homogeneous. </td> <td data-bbox="1357 957 2206 1265"> We have seen that people use money to: <ul style="list-style-type: none"> measure value, make payments, save, borrow. These four uses give us the following four functions that money must perform. <ul style="list-style-type: none"> A unit of account A means of exchange A store of value A means of borrowing then repaying the debt. </td> </tr> <tr> <td colspan="2" data-bbox="763 1265 2206 1300"> <p>Using money to meet changing needs:</p> </td> </tr> <tr> <td colspan="2" data-bbox="763 1300 2206 1508"> <p>At any one time an individual might be using money for one or more purposes. Certain combinations are more likely at certain times in a person's life.</p> <ul style="list-style-type: none"> Young children receiving an allowance are likely to spend most of their money. They may save the financial gifts they receive for higher-value items that they want and for unspecified items in the future. Young adults who have just left home and are earning a low wage are likely to spend most of their money on living expenses. Adults with more job experience and better wages may spend money on living expenses and 'fun items', borrow money through a mortgage to buy a home and save for the future. </td> </tr> </tbody> </table>	Features of Money:	Functions of Money	In order to fulfil its purposes, money needs to have certain features. Money must be: <ul style="list-style-type: none"> acceptable durable recognisable portable stable scarce but sufficient divisible homogeneous. 	We have seen that people use money to: <ul style="list-style-type: none"> measure value, make payments, save, borrow. These four uses give us the following four functions that money must perform. <ul style="list-style-type: none"> A unit of account A means of exchange A store of value A means of borrowing then repaying the debt. 	<p>Using money to meet changing needs:</p>		<p>At any one time an individual might be using money for one or more purposes. Certain combinations are more likely at certain times in a person's life.</p> <ul style="list-style-type: none"> Young children receiving an allowance are likely to spend most of their money. They may save the financial gifts they receive for higher-value items that they want and for unspecified items in the future. Young adults who have just left home and are earning a low wage are likely to spend most of their money on living expenses. Adults with more job experience and better wages may spend money on living expenses and 'fun items', borrow money through a mortgage to buy a home and save for the future. 	
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