

What is Money?



A) Money is all around us. We use it every day and normally don't think about it. But without money, the world would be very different. Money is extremely important, but what is it exactly?

B) Economists tell us that money has three characteristics. The first characteristic is that money must be a store of value. This means that whatever form the money takes (paper, gold, coins, etc), it must be valuable to people. People must think that the coin or piece of paper they have is valuable. In the past, gold and silver were used for this. The second characteristic is money must be a medium of exchange. This means that everyone who uses money must agree that it can be used to buy and sell things. If you go to a store to buy some food, you are able to give the shopkeeper money for the food because he accepts the money.

The last characteristic is that money must be a unit of account. This means that we must be able to easily count it and easily divide it into smaller parts. In the US, the dollar is the unit of account. All dollars are equal and we can count them. If we look at diamonds we can see that although they are valuable, they are not a good unit of account because they cannot be made equal and counted.

C) The alternative to using money to buy and sell things is a system called bartering. In this economic system, one thing is exchanged for something else. To make this idea clear, let's talk about two people, Fred and Alice. Let's say Fred has some rice. Let's say Alice has some fruit. If Fred gives his rice to Alice and Alice gives her fruit to Fred, this is an example of bartering . If you think about it, this is not a convenient or easy way to buy

and sell things. Fred is only able to get Alice's fruit if he has something that she wants. If Fred has nothing Alice wants (maybe she already has enough rice), then Fred cannot get what he wants. This is where money can help. If both Alice and Fred agree to use money, then they can sell their fruit and rice for money and then go and buy whatever they want.

D) It is interesting to note that many different things can be used as money. Cows, shells, bread or any other thing that has value can be used for money. Nowadays, most people use pieces of paper and coins for money. This may change in the future. We may see that people only use electronic money – but that day hasn't come yet. Whatever the future of money is, it will always be important in our lives.