



# **The Nature and Origin of Money**

- Origin of money
- Characteristics & concept of money
- Functions of money



*With barter*, an individual possessing a material object of value, such as a measure of grain, could directly exchange that object for another object perceived to have equivalent value, such as a small animal, a clay pot or a tool.



Many items have been used as **commodity money** such as naturally scarce precious metals, cowry shells, barley, beads etc., as well as many other things that are thought of as having value.



# Metal money





Metal based coins had the advantage of carrying their value within the coins themselves.

Two metals out-competed all others to become internationally accepted. Those were the two precious metals, gold and silver.



The difference between commodity  
value of money and its specie  
value is

**seigniorage**

# Goldsmith bankers

- Since no banks existed in England at the time, these entrepreneurs entrusted their wealth with the leading goldsmith of London, who already possessed stores of gold and private vaults within which to store it safely, and paid a fee for that service. In exchange for each deposit of precious metal, the goldsmiths issued paper receipts certifying the quantity and purity of the metal they held on deposit. The goldsmith receipts soon began to circulate as a safe and convenient form of money backed by gold and silver in the goldsmiths' vaults.



# Bank + note



Bank – банк

Note – боргове зобов'язання

A banknote (often known as a bill, paper money or simply a note) is a promissory note made by a bank

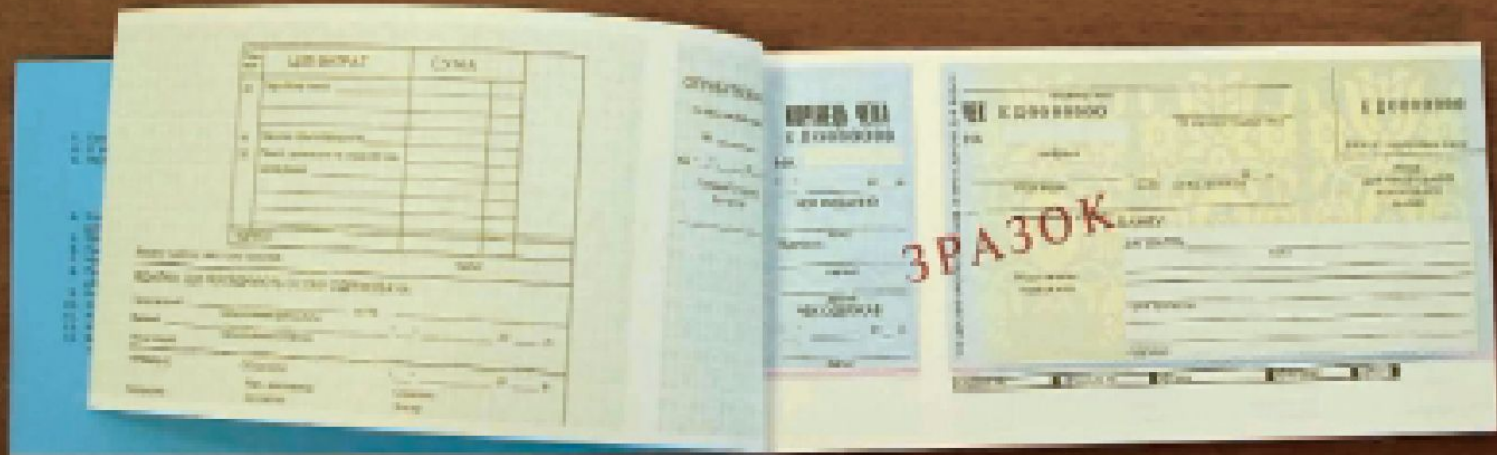


**money of full value -**  
commodity money, gold and silver  
money



# Quasi-money (quasi – подібний)

These are bills, checks, etc. The term refers to securities, which can execute some functions of money, but not all of them



# **Electronic money**

refers to money which  
is only exchanged  
electronically



# Money is



any object or record, that is generally accepted as payment for goods and services and repayment of debts in a given country

# Characteristics of money

- durable
- divisible
- portable
- recognizable
- stable value of money – for people to store it
- economical – to minimize expenses for producing the money
- uniformity of money – for easy calculation



# Functions of money

- **A medium of exchange**
- **Unit of Account or Measure of Value**
- **Store of Value**
- **Standard of deferred payment**
- **World money**

# A medium of exchange

- that is something you acquire not because you want to use it directly in consumption or production but only to trade it for something else you want.



# **Unit of Account or Measure of Value**

This function is sometimes referred to as a standard or measure of value.

# Store of Value

You can sell your labor for money today and then use the money to buy food or clothing later



# Standard of deferred payment

Money provides the unit for  
expressing debts or payments due  
in the future

# World money

only a few currencies can execute the function of medium of exchange for international trade or be a standard of deferred payment to pay a debt to a foreign creditor