MOHAMED-CHERIF MESSAADIA UNIVERSITY - SOUK AHRAS
Faculty of Economics, Commerce and Management Sciences
Basic Education Department
Foreign Language 1 (English)
(1st Semester)

LESSON 03

Forms of Money

Nadji HARIRECHE

CONTENTS:

1- What Is Money?

Money is a system of value that facilitates the exchange of goods in an economy. Using money allows buyers and sellers to pay less in transaction costs, compared to barter trading.

The first types of money were commodities. Their physical properties made them desirable as a medium of exchange. In contemporary markets, money can include government-issued legal tender or fiat money, money substitutes, fiduciary media, or electronic crypto-currencies.

Key Takeaways:

1. Money is a system of value that facilitates the exchange of goods.
2. The use of money eliminates the problem of bartering where both parties must have something the other wants or needs.
3. Historically, the first forms of money were agricultural commodities, such as grain or livestock.
4. Today, most money systems are based on standardized currencies that are controlled by central banks.
5. Digital crypto-currencies also have some of the specific properties of money.

2- How Money Works?

Money is a **liquid asset** used to facilitate **transactions of value**. It is used as a **medium of exchange** between individuals and entities. It's also **a store of value** and a **unit of account** that can measure the value of other goods.

As economies became more complex, money was standardized into **currencies**. This reduced transaction costs by making it easier to measure and compare value. Also, the representations of money became increasingly abstract, from precious metals and stamped coins to paper notes, and, in the modern era, electronic records.

During World War II, cigarettes became a de facto currency for soldiers in prisoner-of-war camps. The use of cigarettes as money made tobacco highly desirable, even among soldiers who did not smoke

3- What Are the Properties of Money?

Fungible القابلية للتحويل	A quality that allows one thing to be exchanged, substituted, or returned for another thing, under the assumption of equivalent value. Thus, units of money should be interchangeable with one another.
Durable دائمة / مستدامة	Money should be durable enough to retain its usefulness for many, future exchanges. A perishable good or a good that degrades quickly due to various exchanges will be less useful for future transactions.
Portable منقولة	Money should be easy to carry and divide so that a worthwhile quantity can be carried on one's person or transported. For example, trying to use a good that's difficult or inconvenient to carry as money could require physical transportation that results in transaction costs.
Recognizable القبول / الاعتراف	The authenticity and quantity of the good should be readily apparent to users so that they can easily agree to the terms of an exchange.
Stable مستقرة	The supply of the item used as money should be relatively constant over time to prevent fluctuations in value. Using a non-stable good as money produces transaction costs due to the risk that its value might rise or fall.

4- Different Types of Money:

Money can be something determined by Market Participants to have value and be exchangeable. Money can be currency (Bills And Coins) issued by a government. A third type of money is Fiat Currency, which is fully backed by the economic power and good faith of the issuing government. The fourth type of money is Money Substitutes (Fiduciary Media), which are anything that can be exchanged for money at any time. For example, a check written on a checking account at a bank is a money substitute. Finally, some jurisdictions have recognized Crypto-currencies as a payment medium, including the government of El Salvador.

4-1 Market-Determined Money:

Money can originate out of the spontaneous **order of markets**. As traders barter for various goods, some goods will prove more convenient than others because they can have the best combination of the **five properties** of money listed above (Fungible, Durable, etc...)

Over time, these goods may become desirable as objects of **exchange**, rather than for **practical use**. Eventually, people may come to desire a good solely for **future trading**.

Historically, precious metals such as gold and silver were often used as market-determined monies. They were highly prized across many different cultures and societies.

4-2 Government-Issued Currency:

When a certain type of money is widely accepted throughout an economy, government bodies may begin regulating it as a **currency**. They may issue standardized **coins or notes** to further **reduce transaction costs**.

A government may also recognize some money as a legal tender, meaning that courts and government bodies must accept that form of money as a final means of payment.

Issuing money allows the government to benefit from **seigniorage**, the difference between the face value of a currency and the **cost** to produce it.

4-3 Fiat Currency:

Many countries issue fiat currency, which is currency that does not represent any type of commodity. Instead, fiat money is backed by the economic strength of the issuing government. It derives its value from **supply and demand** and the stability of the government.

Fiat money allows the issuing government to conduct economic policy by increasing or reducing the **money supply**. Since fiat money does not represent a real commodity, it falls to the issuing government to ensure that it meets the **five properties** of money outlined above.

The International Monetary Fund (IMF) and World Bank serve as global watchdogs for the exchange of international currencies. Governments may enact capital controls or establish pegs in order to stabilize their currency on the international market.

4-4 Money Substitutes and Fiduciary Media:

Sometimes traders exchange money substitutes such as written statements of debt that can be redeemed later. These statements can themselves adopt some of the properties of money.

The use of money substitutes can increase the portability and durability of money, as well as reduce the cost of storage. However, there are risks involved with money substitutes. Banks may print more bills than they have money to redeem, a practice known as fractional reserve banking. If too many people try to make withdrawals at the same time, the bank may suffer from many financial problems.

Fiduciary media are types of money substitutes introduced into circulation that aren't fully backed by the base money held to back money substitutes. For example, paper checks, token coins, and electronic credit represent contemporary examples of fiduciary media.

4-5 Crypto-currencies As Money:

In recent years, digital currencies that do not exist in physical form, such as Bitcoin, have been introduced. Unlike electronic bank records or payment systems, these virtual currencies are not issued by a government or other central body. Crypto-currencies have some of the properties of money and are sometimes used in online transactions.

Although crypto-currencies are rarely used in everyday transactions, they have achieved some utility as a speculative investment or a store of value. Some jurisdictions have recognized crypto-currencies as a payment medium, including the government of El Salvador.