MONEY. THAT’S WHAT I WANT.

[MONEY - FLYING LIZARDS]

AND OTHER MONETARY ASSETS

What is money?

[What is money?](#)

MONEY

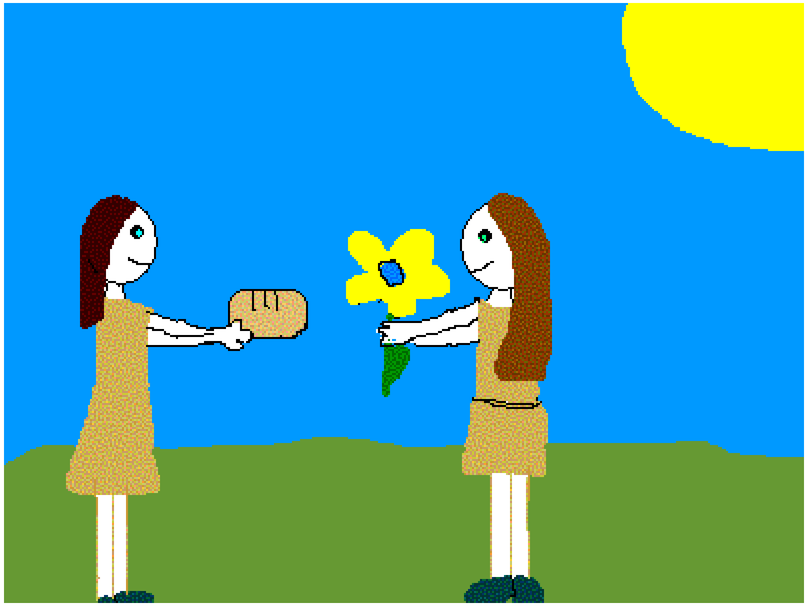
Anything that serves as a medium of exchange, a unit of account, and a store of value

Medium of Exchange

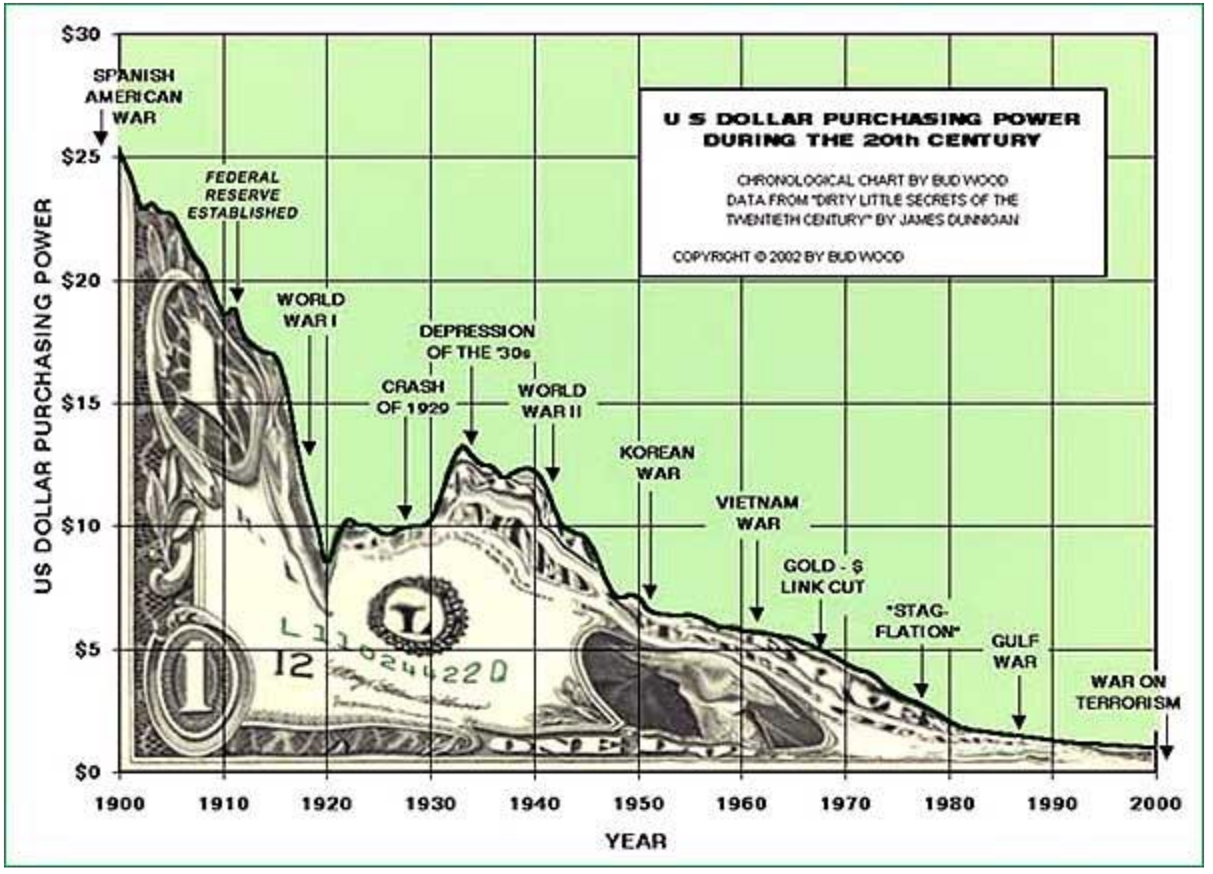
Anything that is used to determine value during the exchange of goods and services

BARTER

The direct exchange of one set of goods or services for another



Unit of Account



A means for comparing the values of goods and services

STORE OF VALUE

Something that keeps its value if it is stored rather than used.

CURRENCY

Coins and paper bills used as money

Commodity Money

Objects that have value in themselves and that are also used as money

Representative Money

Objects that have value because the holder can exchange them for something else of value

For Jade!

Fiat Money

Money that has value because the government has ordered that it is an acceptable means to pay debts.

Describe 3 uses of money

1. Money as a medium of exchange
2. Money as a unit of account
3. Money as a store of value

What are the 6 characteristics of money?

1. Durability
2. Portability
3. Divisibility
4. Uniformity
5. Limited Supply
6. Acceptability

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e.

2.

- People and be

3. Divisibility

- You want your change don't you!?

- Money must be easily divided into smaller units to make trade easier.

4. Uniformity

- Any two units must be the same to stop arguments from happening

- What if we traded rocks. If a small rock bought an apple and big rock bought a car, people might argue what constitutes being a big rock.

5. Limited Supply

- Items used as currency must be in limited supply because if there becomes a never ending supply then that currency will lose its value because just any Joe can go pick some up.

6. Acceptability

- Everyone in the economy must be able to exchange the objects that serve as money for goods and services.
- What would happen if people lost confidence in their country's currency?

How Does Money Serve as a Store of Value?

- Money will keep its value if decide to hold on to – or store – it instead of spending it.
- I just sold my car. If I hold on to the money until I have a chance to go buy a new one, my money will still be valuable when I go to use it.

What are examples of:

A) Commodity Money
B) Representative Money
C) Fiat Money

Commodity Money

- Consists of objects that have value in and of themselves and that are also used as money
  - Pepper, pigs, diamonds
    - Pepper can be used as to make food taste better
    - Pigs can be used as food
    - Diamonds… well they are a girl's best friend!

Representative Money

- Makes use of objects that have value because the holder can exchange them for something else of value.

- I write on IOU on some toilet paper. It is worth nothing but the promise of me to do your homework may be worth something.

Fiat Money

- Money that has value because the government has ordered that it is an acceptable means to pay debts

- Our money in the U.S.
  - It remains in limited supply, and therefore is valuable because the federal reserve controls its supply

Why does the United States currency have value?

- The Man says it does!

- The control the federal reserve has over limiting the supply of money in circulation allows it to hold its value.

What are disadvantages of commodity money?

- It is often not
  - Portable
  - Durable
  - Divisible

Why Did Continentals Become Worthless?

- People began to lose faith that they would be able to redeem their bills for gold and silver.
- They had lost faith in their value causing them to be useless.

Would Bobble Heads or M&Ms make good money?

Lets see how they meet each of the six characteristics of an ideal currency.

Bobble Heads

1. Durability – Well they are pretty fragile.
2. Portability – I can't carry many of them at a time.
3. Divisibility – I can take off their head, that is about it.
4. Uniformity – Which one do you like best?
5. Limited supply – They are pretty limited
6. Acceptability – I am not sure the school store would take them. But they should!

M&Ms

- Durability – They don’t melt in your hand and I found one in the corner the other day!
- Portability – I can keep many in my pocket!
- Divisibility – They are pretty tough to split.
- Uniformity – We could use the colors for value!
- Limited supply – They are pretty much unlimited but we could limit them
- Acceptability – Maybe we could convince people?

What are bonds?

- Bonds are basically loans, or IOUs that represent debt that the government or a corporation must repay to an investor.
- Bonds typically pay the investor a fixed amount of interest at regular intervals for a fixed amount of time.
- Bonds are generally lower-risk investments.

Three Components of Bonds

- Bonds have 3 basic components :
  - Coupon rate
    - The interest that the bond issuer will pay to the bond holder
  - Maturity rate
    - Is the time at which payment to the bondholder is due. Different bonds have different lengths of maturity. 10, 20, or 30 years is common
  - Par value
    - The amount that an investor pays to purchase the bond and that will be repaid to the investor at maturity. Par value is also called face value or principal.

Example

- Suppose you buy a $1,000 bond from the Golden Ram Coffee Shop
  - The investor who buys the bond is called the “holder”
  - The seller of the bond is called the “issuer”
  - You are therefore the holder of the bond , and Golden Ram is the issuer.
  - The basic components of this bond are:
    - Coupon rate: 5%
    - Maturity: 10 years
    - Par Value: $1,000

So how much money would you get?!

- The coupon rate is 5% of $1000 per year.
  - This means $50 each year for ten years or a total of $500.
- In ten years, the bond will have reached maturity, and Golden Ram will retire the debt and pay back the $1000

Advantages

- Once the bond is sold, the coupon rate will not go up or down.
  - Golden Ram sells bonds, it knows in advance that it will be making fixed payments for a specific length of time.
- Unlike stockholders, bondholders do not own part of the company.
  - Therefore, the company does not have to share profits with its bondholders if the company does particularly well.

Disadvantages

- The company must make fixed interest payments, even in bad years when it does not make money.
- It also cannot change its interest payments even when interest rates have gone down.