

### 3. MONEY

PRIMARY CLASSIFICATION OF ECONOMIC THEORIES AS IMPLIED BY ADAM SMITH'S DEFINITION OF ECONOMICS		BEHAVIORS THAT DRIVE INDIVIDUAL DECISIONS ABOUT WEALTH		
		oikonomia	khrematistiké	
NATURE OF INDIVIDUAL AND SOCIAL WEALTH	identical	Orthodoxy	Marxian heterodoxy	<i>real analysis</i>
	different	Keynesian heterodoxy	Full heterodoxy	<i>accounting approach</i>

Logically there is only one case where we do not need to define money: orthodox theory.

Empirically: there is money in the socio-economic system in which we live



### 3.1 What is money?



Bankszámla kivonat			
Teljesítési időszak:	2008.07.01. - 2008.07.30.	Bank neve:	XIKK Bank Rt.
Kivonat kelte:	2008.08.10.	Bank székhelye:	Budapest
Cikkszám:	1		
Kivonat sorozatszáma:	99999999/2008		
Devizaneme:	HUF		
Ügyfél neve:	Marta József		
Ügyfél azonosító kódja:	9999999		
Ügyfél számlaszáma:	99999999.99999999.99999999		
Évesítésnap	Tranzakció adatai	Tartalék	Jóváírás
2008.07.02	Munkabérek átutalása		150 000
2008.07.05	ATM felvétel	1 111 222 233 334 440	
	Kártyaszámla		Módiós
2008.07.12	Fogadótt tétel		43 000
2008.07.14	ATM felvétel	1 111 222 233 334 440	
	Kártyaszámla		Budapest
2008.07.15	Vásárlás	12 600	
	Kártyaszámla	1 111 222 233 334 440	Szécsény
2008.07.20	Internetes átutalás	23 000	
2008.07.25	Számlavezetés díj	300	
		100 000	193 000
Teljesítésnap/jóváírások összege			
	Helyi egyenleg	150 000	
	Záró egyenleg	242 100	

What are the common characteristics?

- 1/ its physical form does not matter
- 2/ it has a unit (HUF, \$, ...)
- 3/ it is used for payment

NOT PHYSICAL THING

THEN WHAT?

## 3.1

### An analogy



### What is rook?

1/ Without the rules of the chess it is impossible to interpret the rook! 2/ What makes the rook different from other pieces in the chess?

1/ The set of rules where money makes sense:

**Payment system:** social rules governing the creation and termination of contractual obligations (contractual relationship relating to wealth)

**Pay:** terminate this contractual obligation. In concrete terms: - honour a debt (mainstream).

2/ What makes the difference between money and other assets (means of payment)

**Money** is any *financial assets*<sub>3</sub> with which one can *pay*<sub>1</sub> *all*<sub>2</sub> her debts.

**high powered money:** money that is money for *all* the economic agents

**monetary system:** payment system with money

Monetary system is specified by the following rules:

1. Rules on **payment** ✓
2. Specification of the common **unit of account** ✓
3. **Rules on money creation** and (destruction)

# 3.1

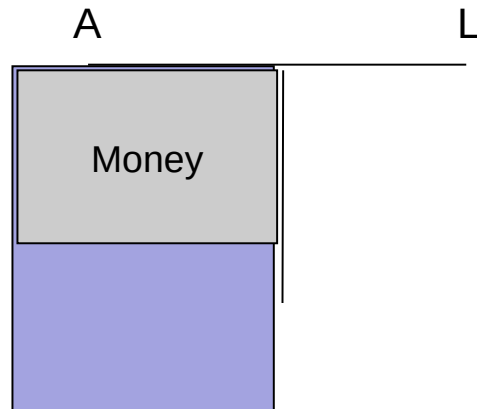
## Rules on money creation and (destruction)

### Two theoretical options:

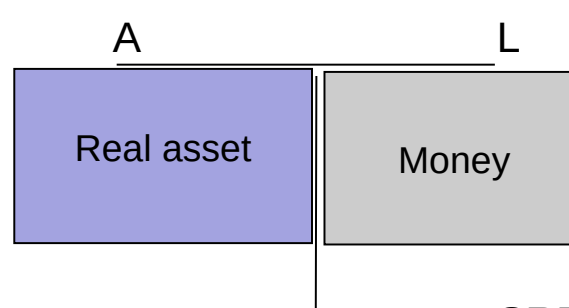
#### ► PURCHASE



Non issuer of money



Issuer of money



#### ► CREDIT (LOAN)

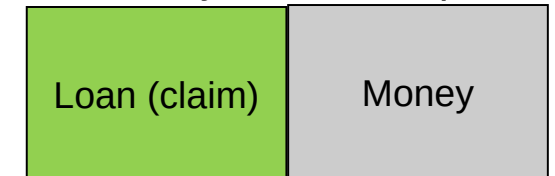


Non bank



Bank

create money via credit operation



Reimbursement of loans

Extinction = return to the creator

TAX

Same driving force leads acceptance: the claim (loan/tax) can be paid exclusively with money.

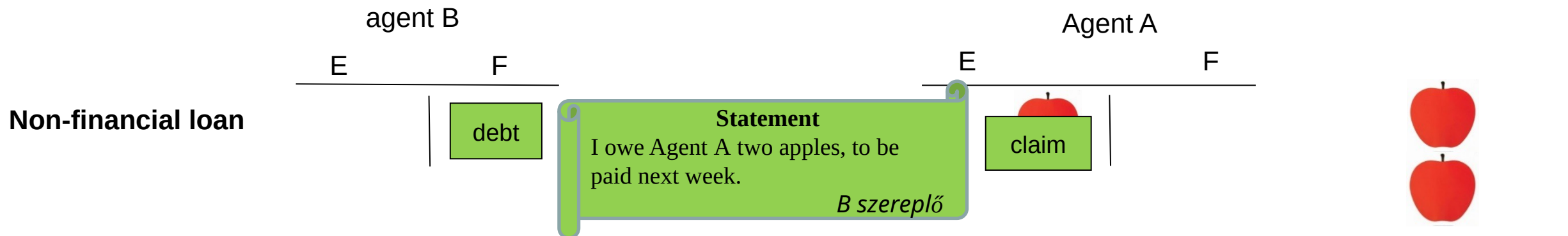
... or petrol only for \$



## Appendix for 3.1

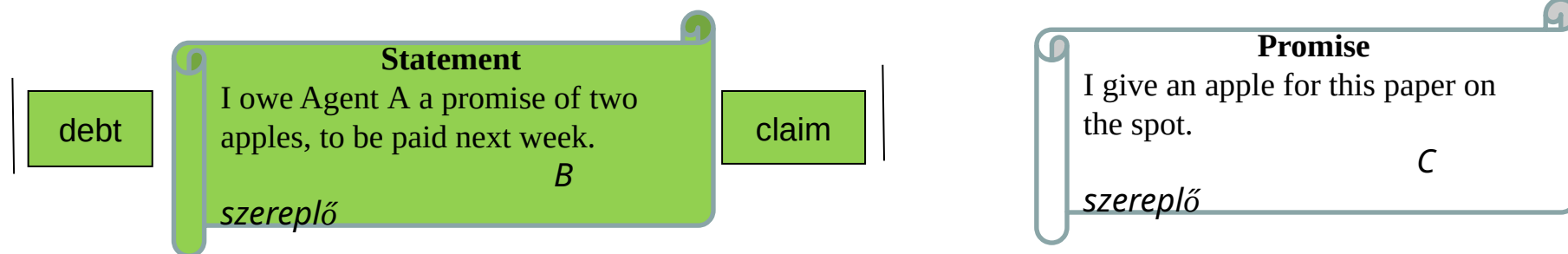
What is the distinctive characteristic of credit operation (financial loan)?

In money YES, but to see clearly:



- ✓ **Enforcable in terms of something other than itself– real asset!**
- ✓ Has maturity (must be paid in time)
- ✓ asymmetric – order of execution matters

**Financial loan  
(credit operation)**



- ✓ **Enforcable in terms of something other than itself– financial asset**

Financial loan is not an equivalence relationship!

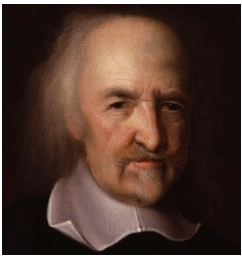
# 3.2 The primary importance of the control of money (monetary system)

## 3.2.1 Logically

Economics:  
study of wealth accumulation

Etimology:  
**private**  
property  
↓

can get it from  
others



Thomas **HOBBS**  
(1588-1679)

**Wealth** is power, derived from the institution of private property, to **Command members of society** what to do through voluntary contractual obligations relating to wealth.

This is what economists say as **production is collective**: Everyone contributes to social wealth and acquires the right to appropriate part of it.

The process of wealth of accumulation is necessarily the joint action of the members of the society



Necessarily, because of the definition of society



Andrew Jackson (1767-1845)  
7. President of the US

The **most important** power of the state is omitted:



Mayer Amschel Rothschild  
1743-1812

Binding contractual obligations are repeatedly created and terminated.



We called payment system the social rules that govern it.

which in monetary economies is

**monetary system**  
**Control of the money (monetary system)**

*money power*

„Give me control of a nation’s money, and I care not who makes its laws!”

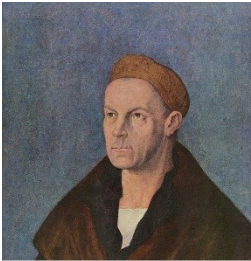
### 3.2.2 Some historical facts



Giovanni di Lorenzo de'  
Medici (1475-1521)

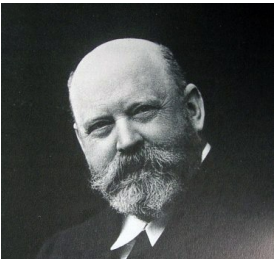
1513: X. Leo

1513. Mars, 15: sacrificial priest,  
17: bishop,  
19: pope



Jakob Fugger  
(1459–1525)

1519: V. (Habsburg) Karl German-Roman Emperor



Walter Rothschild  
(1868-1937)

1917: Balfour declaration

His Majesty's Government view with favour the  
establishment in Palestine of a national home for the  
Jewish people.

Dear Lord Rothschild,

I have much pleasure in conveying to you, on  
behalf of His Majesty's Government, the following

Foreign Office,  
November 2nd, 1917.



## 3.3 Evolution of monetary systems: from state issuance of money to private credit money system

### 3.3.1 Historical facts

