

# CHAPTER 1: CONCEPTS OF MONEY

Understanding the basics and functions of currency

# INTRODUCTION TO THE BARTER SYSTEM

# DIFFICULTIES OF THE BARTER SYSTEM

## **Double Coincidence of Wants**

Trade requires both parties to desire what the other offers, limiting possible exchanges.

## **Indivisibility of Goods**

Some goods cannot be divided without losing value, complicating fair exchanges.

## **Lack of Common Value Measure**

Absence of a standard value measure makes pricing and comparison difficult.



# DEFINITION AND NATURE OF MONEY

# UNDERSTANDING MONEY

## Functions of Money

Money acts as a medium of exchange, unit of account, store of value, and standard of deferred payment in economies.

## Ethiopian Birr Currency

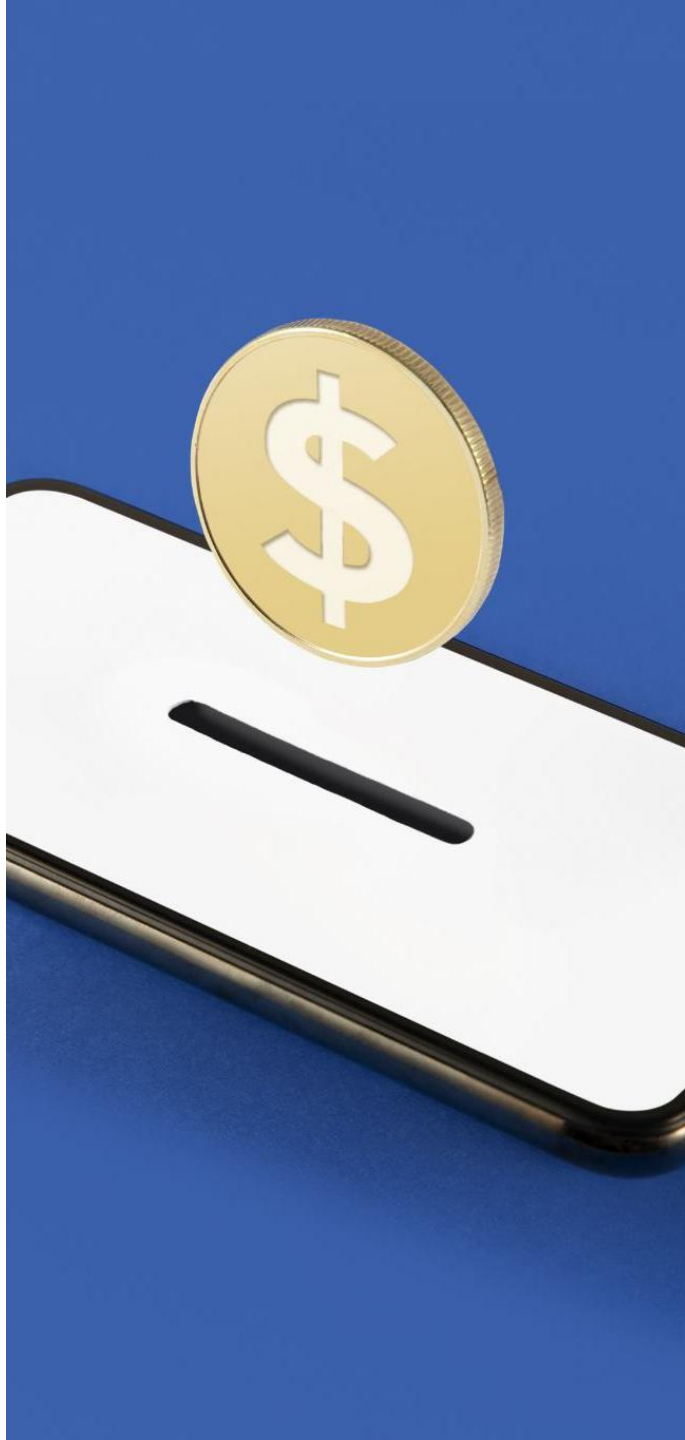
The Ethiopian Birr exists in coin and paper form, facilitating trade, savings, and financial planning in Ethiopia.

## Money vs Barter System

Money simplifies transactions by providing a common value measure and removing the need for mutual wants unlike barter.

## Digital Money Evolution

Digital money, including mobile money and online banking, enhances the utility and accessibility of money in modern economies.



# EVOLUTION OF MONEY AND PAYMENT SYSTEMS





# HISTORICAL FORMS OF MONEY

## **Commodity Money Origins**

Early trade involved commodity money such as salt, cattle, and grains valued for their usefulness and scarcity.

## **Metallic Money Development**

Gold and silver coins offered durability and intrinsic value, becoming standard mediums in trade.

## **Rise of Paper Currency**

Governments issued paper money backed by trust, marking a shift from commodity-based to representative money.

## **Regional Silver Coin Usage**

The Maria Theresa thaler was a widely accepted silver coin in Ethiopian and regional trade.

# MODERN PAYMENT SYSTEMS

## Types of Modern Money

Modern payments include bank money such as cheques, plastic money like credit cards, and digital money including mobile wallets.

## Digital Payment Platforms

Platforms like Telebirr in Ethiopia enable mobile payments and digital transfers, transforming financial transactions.

## Benefits of Modern Systems

Modern payment systems offer convenience, security, accessibility, and support the move towards cashless economies.

## Economic Impact

The adoption of digital payments boosts financial inclusion and plays a key role in shaping economic strategies.





# FUNCTIONS OF MONEY



# CORE FUNCTIONS OF MONEY

## **Medium of Exchange**

Money facilitates buying and selling, enabling smooth exchange of goods and services.

## **Unit of Account**

It provides a standard measure to price goods and compare values in the economy.

## **Store of Value**

Money retains purchasing power over time, supporting saving and future financial planning.



# EXTENDED FUNCTIONS AND LEGAL ROLE

## **Standard of Deferred Payment**

Money allows for future financial obligations like loans and contracts by serving as a standard of deferred payment.

## **Legal Tender Role**

Money is recognized legally as a valid means to settle debts, ensuring it is accepted for all transactions.

## **Currency in Ethiopia**

The Ethiopian Birr is the official legal tender, mandated by law for all financial transactions within the country.

## **Economic Flexibility and Trust**

Deferred payments and stable currency foster economic flexibility and trust in financial institutions and credit systems.

# DRAWBACKS OF MONEY



# CHALLENGES AND NEGATIVE IMPACTS

## **Inflation Impact**

Inflation reduces money's purchasing power, affecting living costs and savings, notably in Ethiopia.

## **Counterfeiting Risks**

Counterfeit money undermines trust in currency, necessitating advanced security measures.

## **Economic Inequality**

Unequal money distribution fosters social inequality and economic disparity.

## **Corruption and Governance**

Money can facilitate corruption and illegal activities, impacting governance and public trust.