Money

Barter System

Limitations of the Barter System

Double Coincidence of want For the barter system to work there had two be two parities that wanted what the other had in exchange for what they had.

Lack of a common measure of value In the barter system, there was no common measure of value. This made it difficult to compare the value of goods and services.

Lack of divisibility Some goods and services could not be divided into smaller units. This made it difficult to exchange them for other goods and services.

Lack of store of value Some goods and services could not be stored for a long time. This made it difficult to save them for future use.

Money Supply

> [Liquidity] The ease at which you can turn assets into money.

> [Velocity of Money] The number of times money changes hands in a given period of time.

> [Money Stock] The total amount of money in circulation and in existence in a country.

> Money Supply The total amount of money in circulation in an economy.

Kinds of money

There are two types of money in the economy: - Fiat Money - Commodity Money

Fiat money Fiat money is money that has no intrinsic value. It is money that is declared by the government to be legal tender. It is money that is not backed by any physical commodity. It is money that is accepted as a medium of exchange because the government says so.

Commodity money   Commodity money is money that has intrinsic value. It is money that is backed by a physical commodity. It is money that can be exchanged for a physical commodity. It is money that has value because it is made of a physical commodity. Example gold.

intrinsic value   Intrinsic value is the value of a good or service that is not derived from its use as a medium of exchange.

Narrow Money (M1)

The most readily available money in the economy. It is the sum of currency in circulation and demand deposits. i.e. $M1 = \text{Currency} + \text{Demand Deposit}$

Where Currency is the physical money in circulation and Demand Deposit is the money in the bank that can be withdrawn at any time.

Broad Money (M2...)