

Topic 1 Money

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The Nature of Money

In modern economies, money is often viewed merely as a lubricant that greases economic activities.

“Money can’t buy happiness, but only rich people know that.”
-Natalia Vodianova

“Lack of money is the root of all evil.”
-George Bernard Shaw

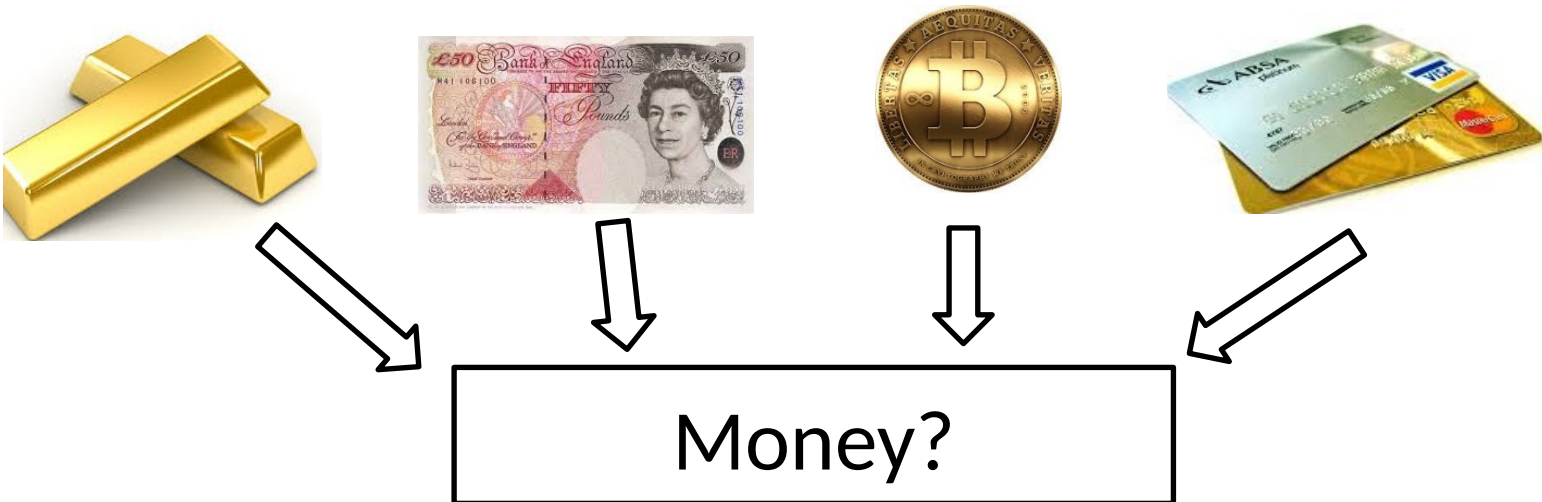
What is money?



By definition

Money is defined as anything that is generally accepted in payment for goods or services.

- Mishkin (2013)



Let's take a closer look...

Money has three primary functions in any economy

1. Medium of exchange

2. Unit of Account

3. Store of Value

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1. Medium of exchange



Continued...

2. A unit of account



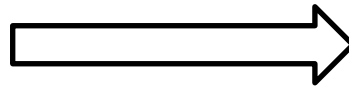
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3 Store of Value



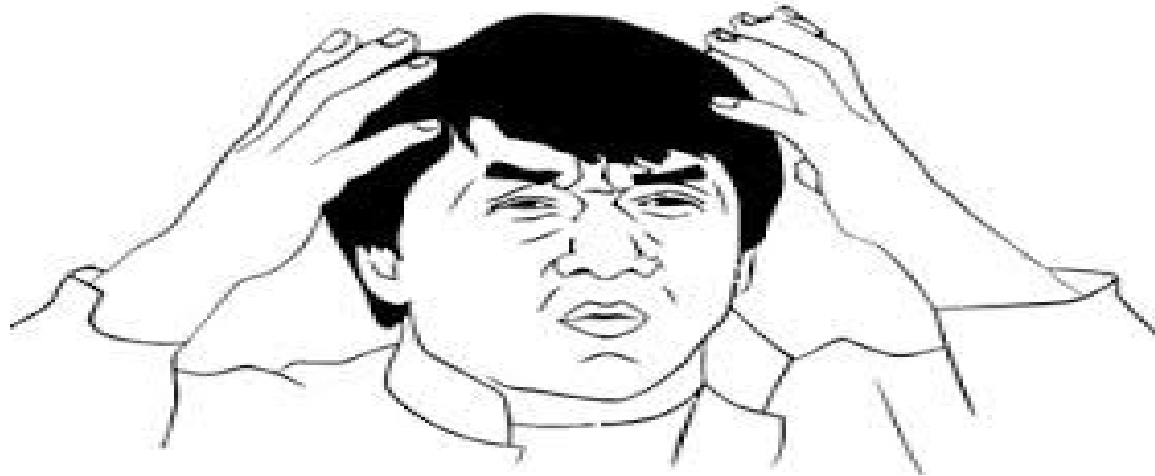
Let's look at the definition again...

Money is the general equivalent which bears no inherent value.



Gold has industrial value !!!

What is money??



Let's go back to 320 years ago...

William III of England

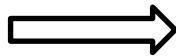
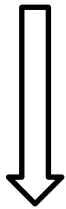


Louis XIV



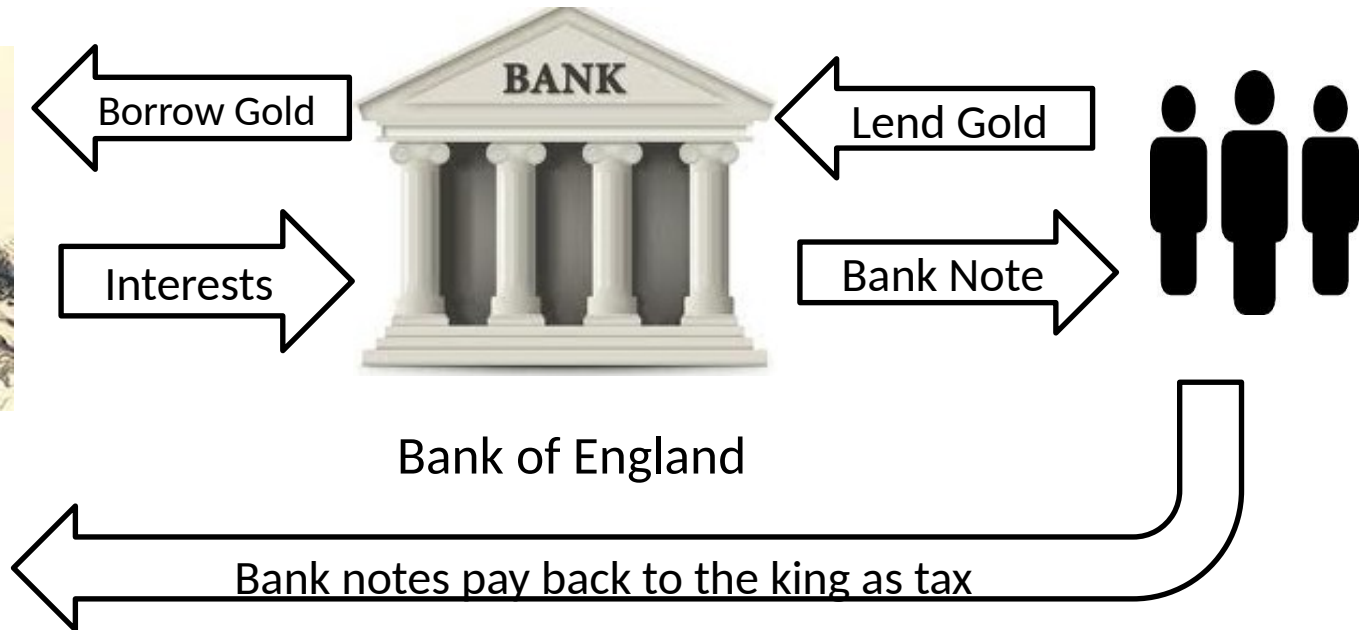
VS

9 years' war 1688 - 1697



In the year 1694...

Charles Montagu, 1st Earl of Halifax



Today 2022



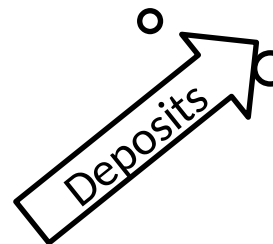
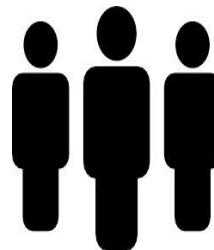
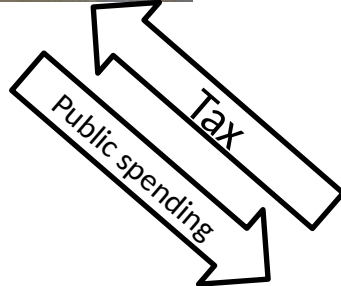
I need money

Sure, write me an IOU



Sell Treasury Bonds

Print GBP



Money is created

Money as debt



I PROMISE TO PAY THE BEARER ON DEMAND THE SUM OF

Is it an IOU?

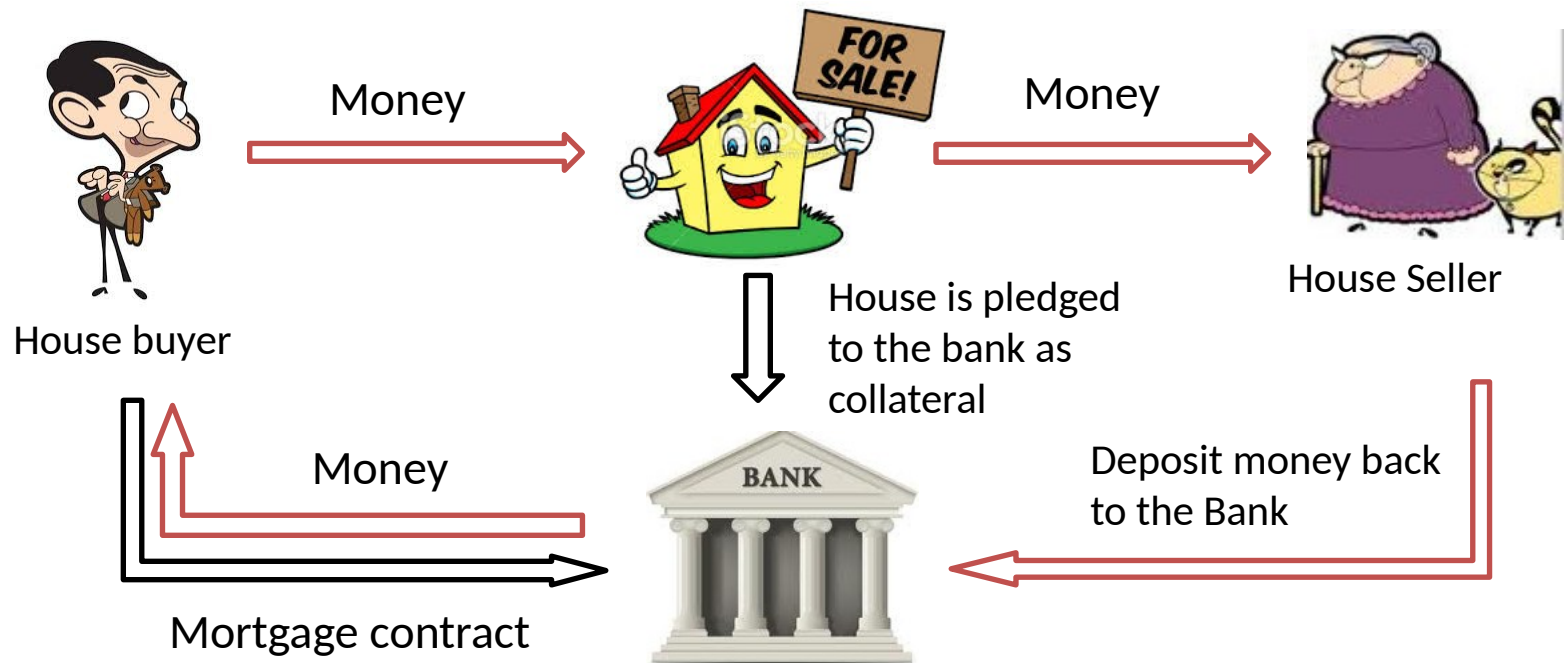
M1

The narrowest measure of money is M1 which includes:

1. Currency
2. Traveller's checks
3. Demand deposits
4. Other checkable deposits

The credit multiplier

Money can also be created by commercial banks.



To the bank's balance sheet, the amount of money which is equivalent to the value of the house is created.

Any Questions?

