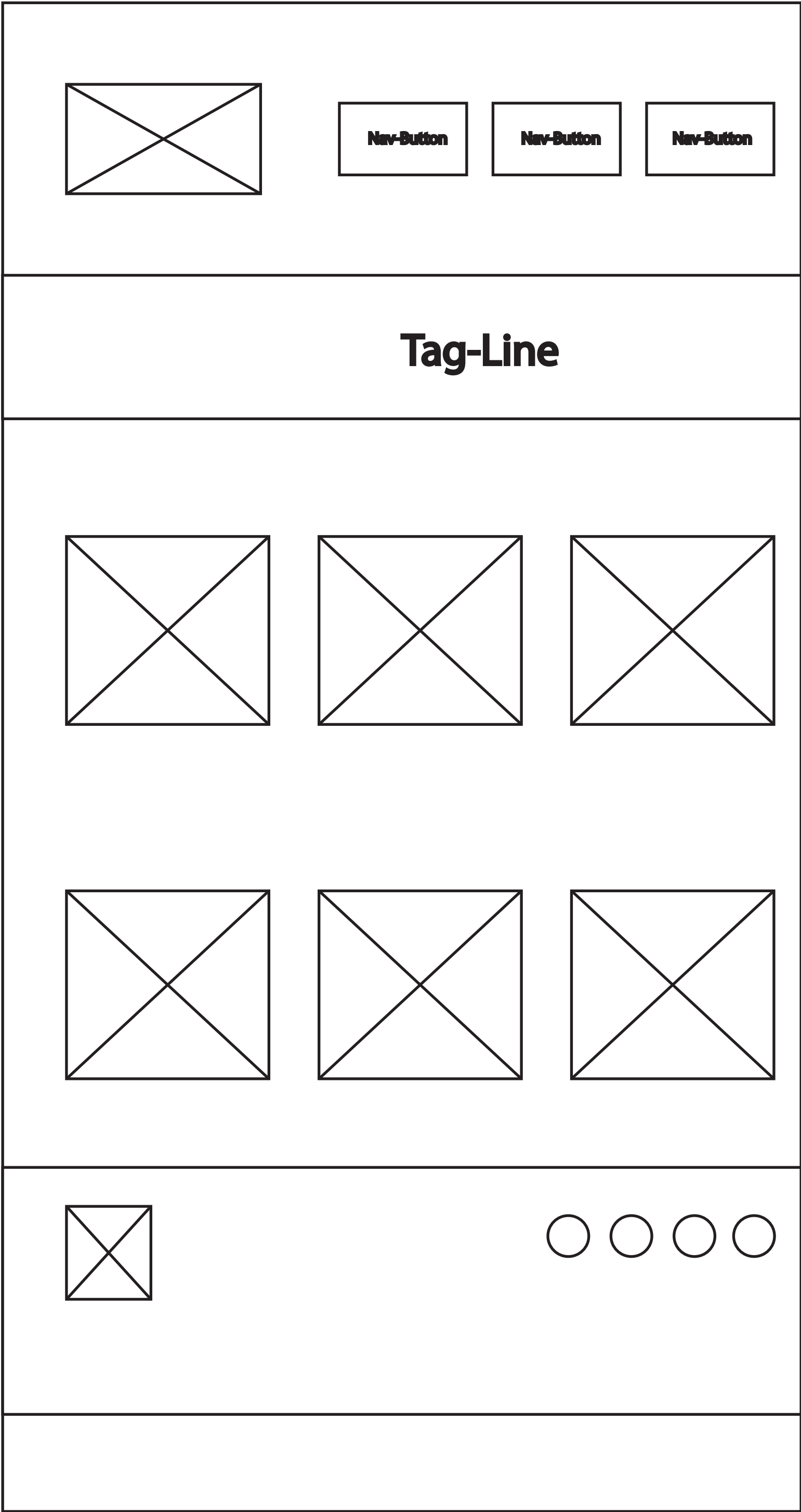
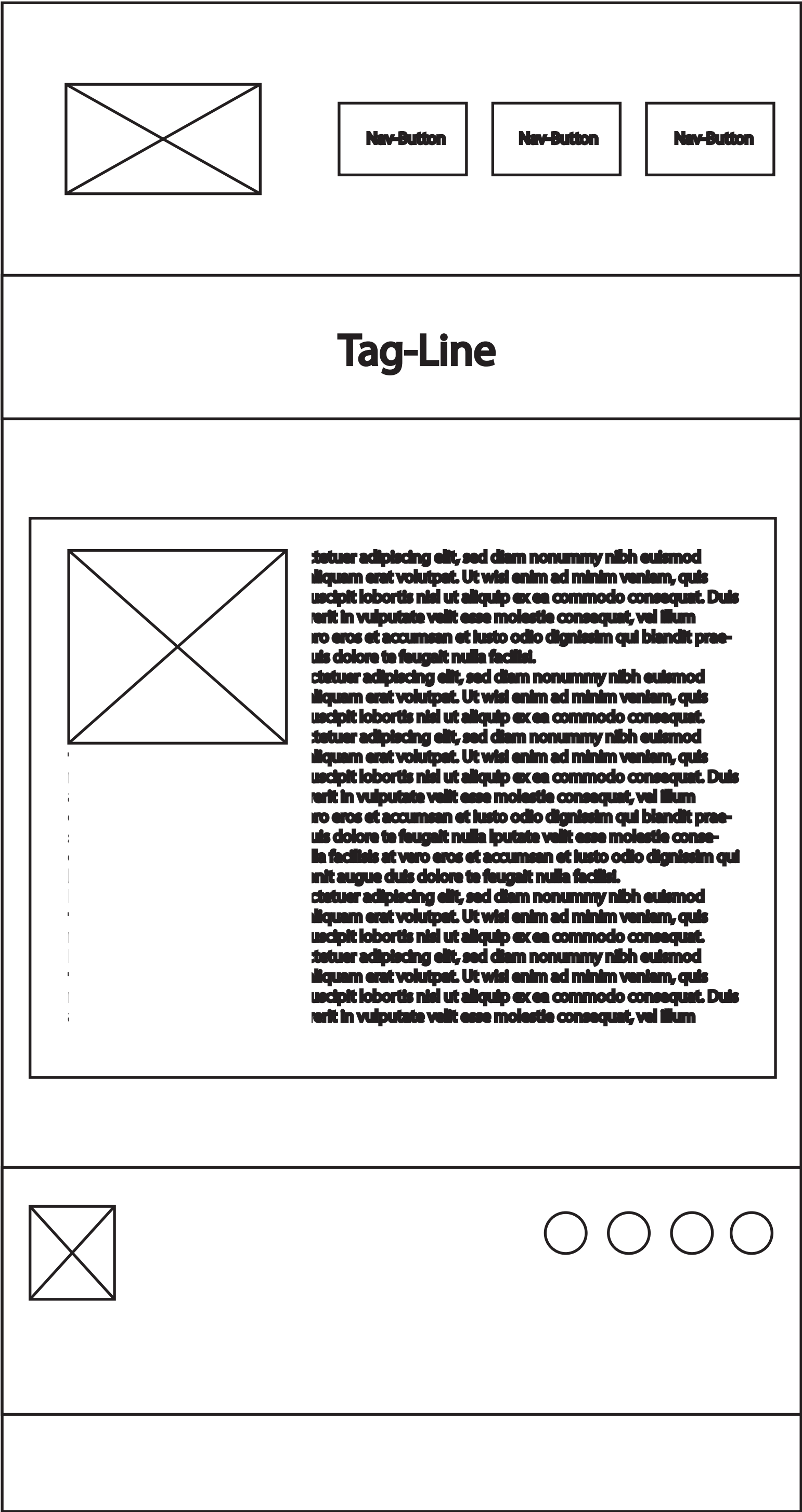
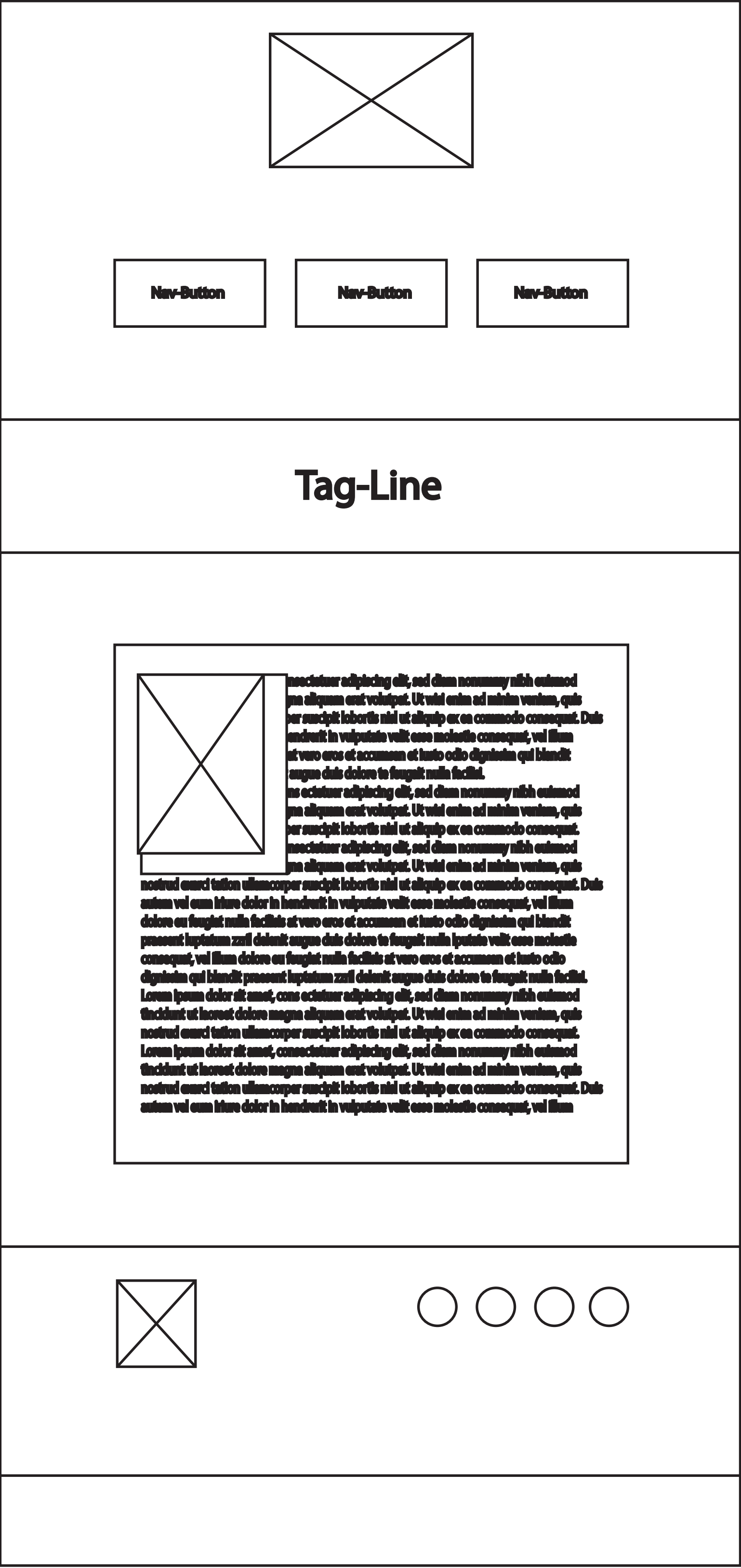
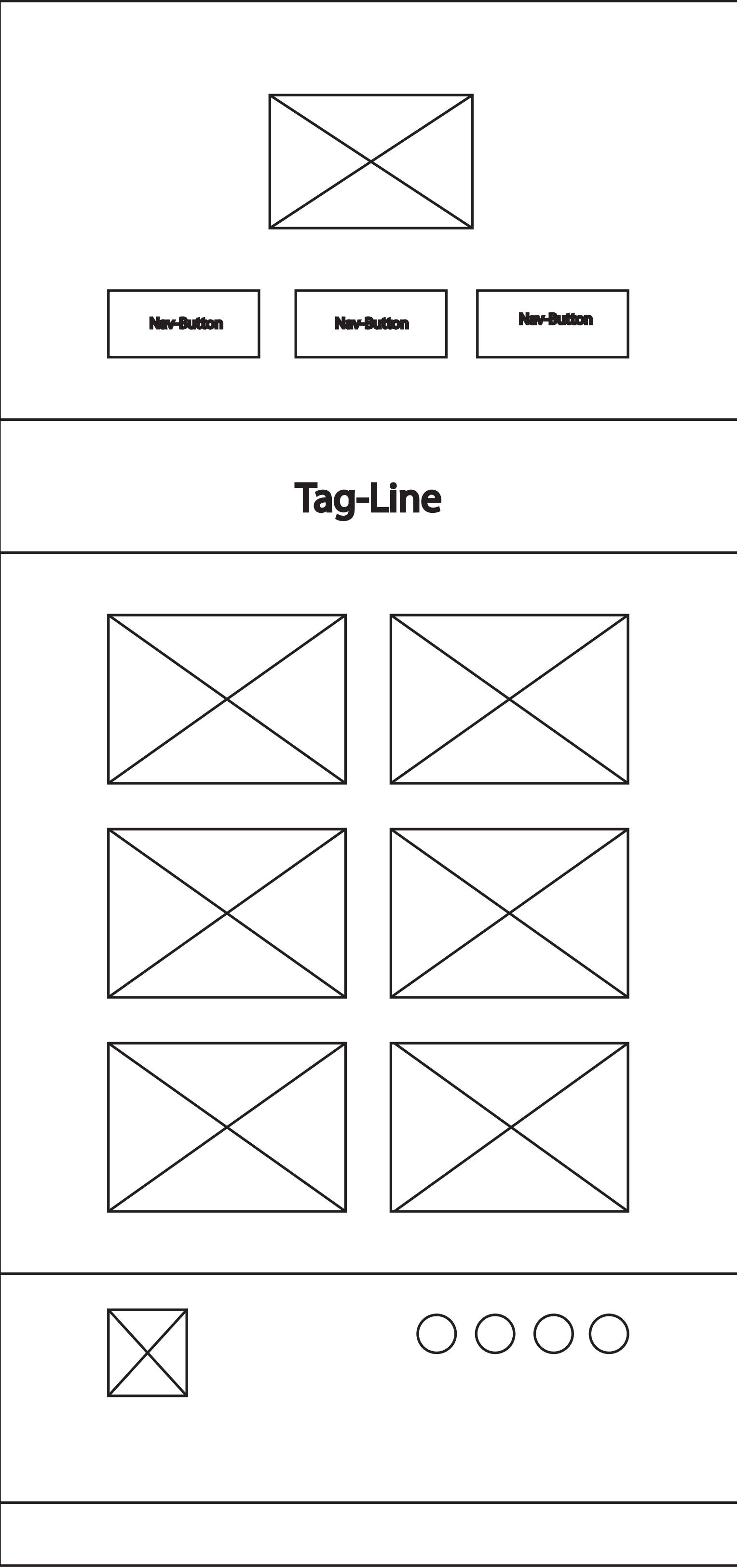


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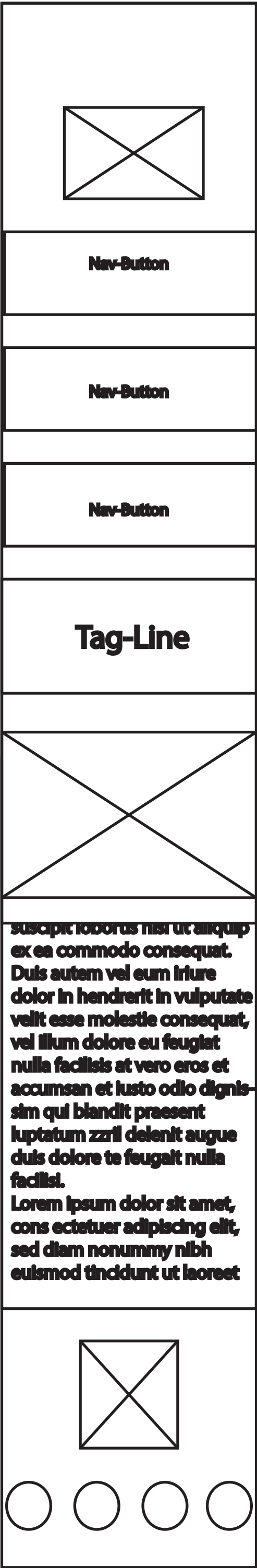
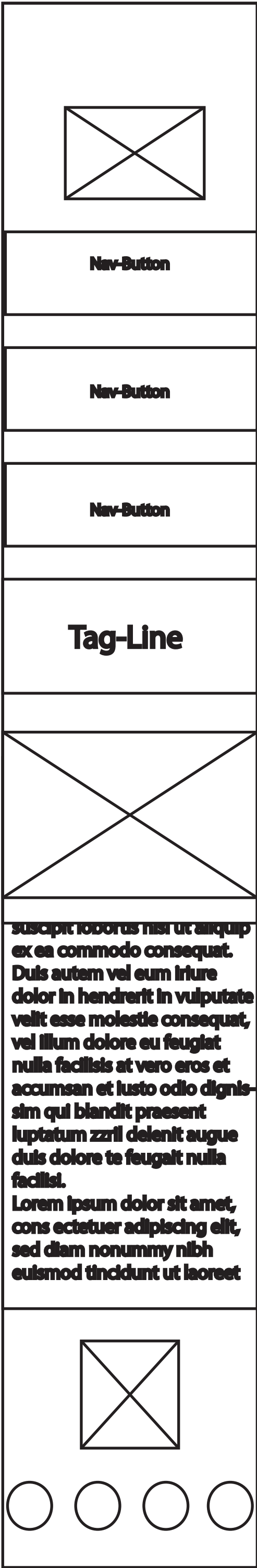




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How the Value of Money Is Determined

The value of money is determined by the demand for it, just like the value of goods and services. There are three ways to measure the value of the dollar. The first is how much the dollar will buy in foreign currencies. That's what the exchange rate measures. Forex traders on the foreign exchange market determine exchange rates. They take into account supply and demand, and then factor in their expectations for the future. For this reason, the value of money fluctuates throughout the trading day. The second method is the value of Treasury notes. They can be converted easily into dollars through the secondary market for Treasuries. The third way is through foreign exchange reserves. That is the amount of dollars held by foreign governments. The more they hold, the lower the supply. That makes U.S. money more valuable. If foreign governments were to sell all their dollar and Treasury holdings, the dollar would collapse. U.S. money would be worth a lot less.

When the Value of Money Steadily Declines

Inflation is when the value of money steadily declines over time. Once people expect that prices will rise, they are more likely to buy now, before prices go higher. That increases demand, which tells producers they can safely pass on more costs. They drive prices up more, and inflation becomes a self-fulfilling prophecy. That's why the Federal Reserve watches inflation like a hawk. It will reduce the money supply or raise interest rates to curb inflation. A healthy economy can sustain a core inflation rate of 2 percent. Core inflation is the price of everything except food and gas prices, which are very volatile. The Consumer Price Index is a measure of inflation.

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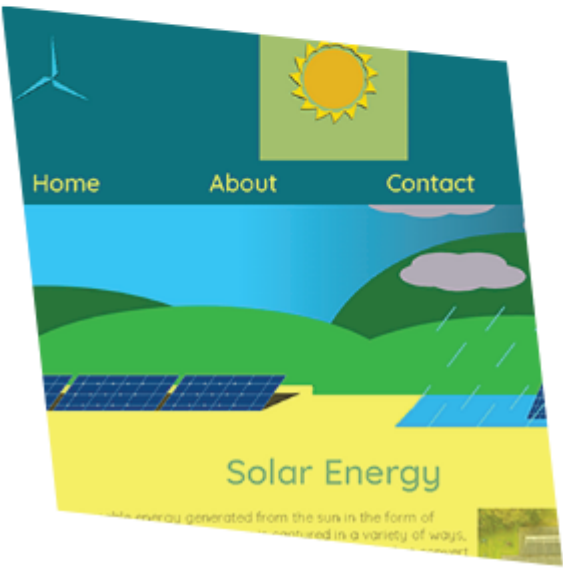
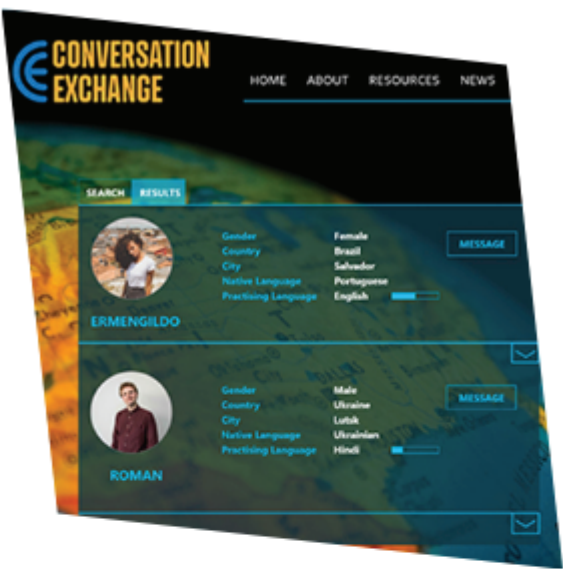


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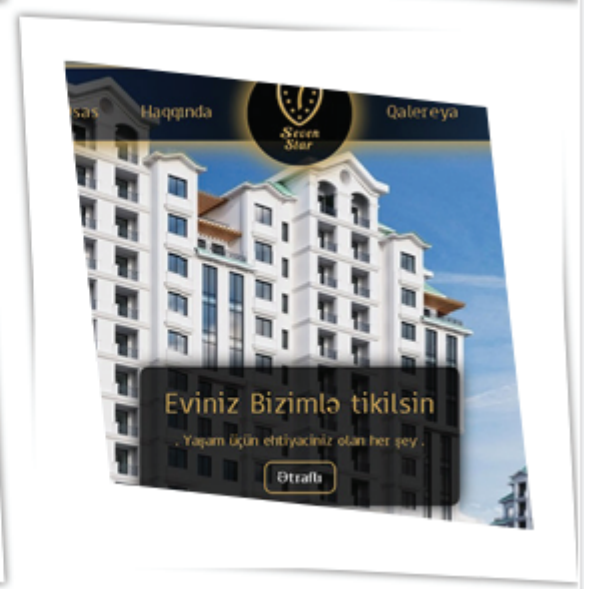
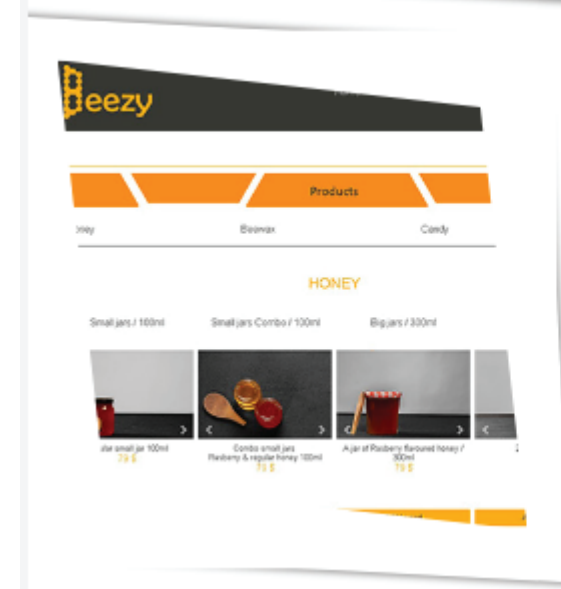
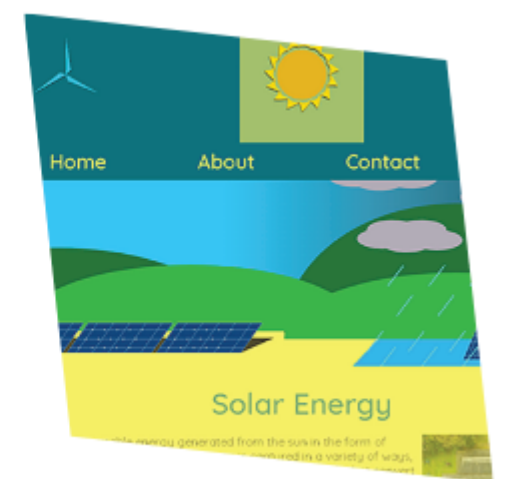
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