

Financial Literacy (“finlit”)
Winter Term 2023 - 2024
November 29, 2023

Foundations of Money Class 2: History of Money & What is Money?



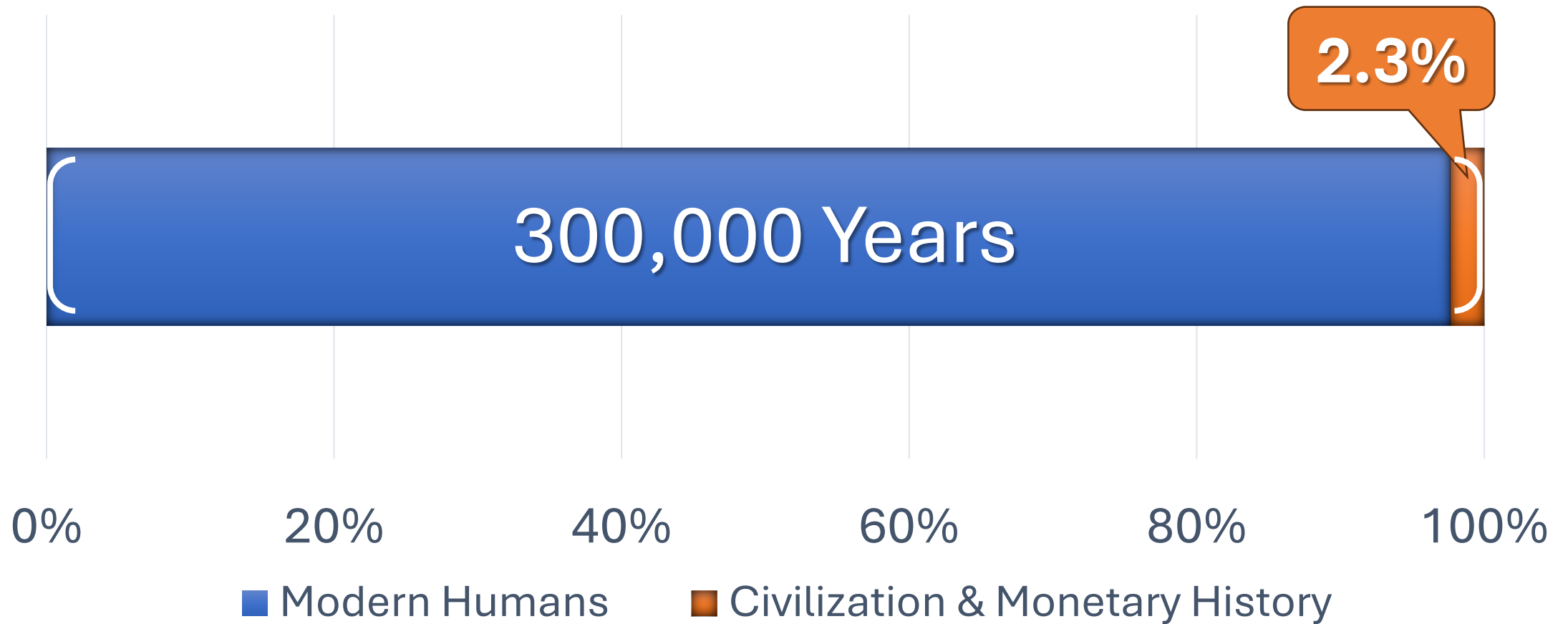
What is Money?

Seriously – stop and think about it. What is money?

Brief Perspective on Monetary History

- 13.8 **billion** years ago – The Big Bang; The Universe is created
- 4.6 **billion** years ago – The Sun ignites; the Earth forms
- 2 **million** years ago – Early humans develop
- 300 **thousand** years ago – First Homo Sapiens develop
- 7,000 years ago – Earliest human civilization; monetary accounting records discovered in Mesopotamia.
- 2,700 years ago – First coins were minted by the Lydians
- 110 years ago – U.S. Federal Reserve Act becomes law
- 52 years ago – Gold stops backing up the U.S. Dollar
- 14 years ago – Bitcoin genesis block is mined

How long has money been around, relative to modern civilization?





Class Discussion

*Why did it take
so long for
modern humans
to develop
money?*

From Nomadic Hunter / Gatherers to Nations Engaging in Global Commerce



Hunters / Gatherers

Early humans were nomadic, hunting and gathering for survival in families and tribes. Resources were shared within the tribe. “Favors” may have been money.



Communities and Barter

Humans developed farming techniques, settling into villages that grew into larger communities. **Specialization led to barter. Early commodity money developed.**



City States and Trade

City states emerged. Barter was too inefficient for trade to scale. **Governments minted coins** from precious metals like silver and gold, which were scarce.



Nations and Commerce

Global commerce requires fast settlement. Gold was too inefficient. Telecommunications enabled ledgers to be updated same-day across the globe. **Fiat currencies emerge.**



Class Discussion

*What do people
do with money?*

How People Use Money



Spend it to buy things



Save it for later



Class Discussion

*Why do people
need to spend
money and save
money?*

Why People Need to Spend and Save



Spend Money

Humans have specialized their work. We get our **needs** (ex. food or shelter) and **wants** (ex. entertainment) from other humans.



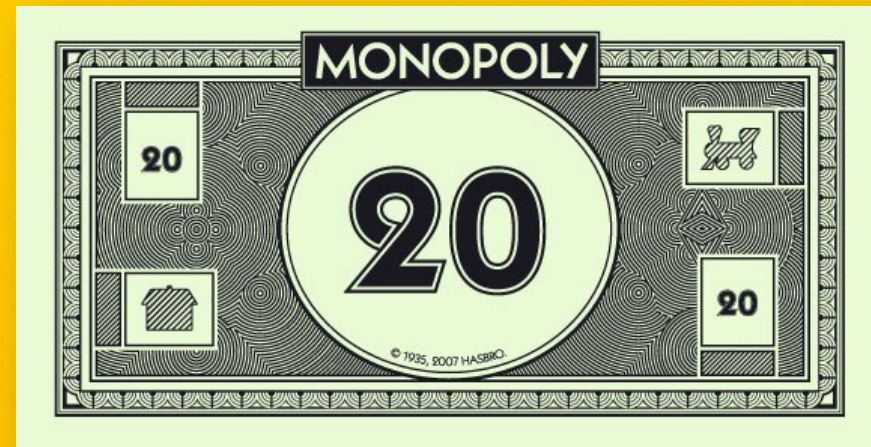
Save Money

The future is uncertain (ex. sickness or wars). Saving value to use later reduces risks of these uncertainties. Savings are deferred consumption.

Class Discussion



Why do we value this? →



But not this?



Examples of Money Used in Human History



Beads



Bitcoin



Buttons



Credit / IOU



Currencies



Gemstones



Gold



Oil



Seashells



Tobacco

The Form of Money is Arbitrary



If we agree this is
money, then it is
money.



If we agree this is
money, then it is
money.



**However, Not All
Forms of Money
are Sound Money.**



Class Discussion

*What makes
some forms of
money sounder
than other
forms of
money?*

Money Functions and Characteristics

Most people associate money with national currencies. All national currencies try to function as money, but not all money is a national currency.

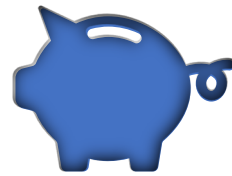
The Three Functions of Money



Medium of Exchange ("MoE")

People can trade it in exchange for goods, services, and information

Characteristics: acceptability and portability



Store of Value ("SoV")

Value is reasonably stable and purchasing power is not quickly lost over the passage of time

Characteristics: durability and scarcity



Unit of Account ("UoA")

Financial accounts and valuation amounts are denominated in monetary units

Characteristics: divisibility and fungibility

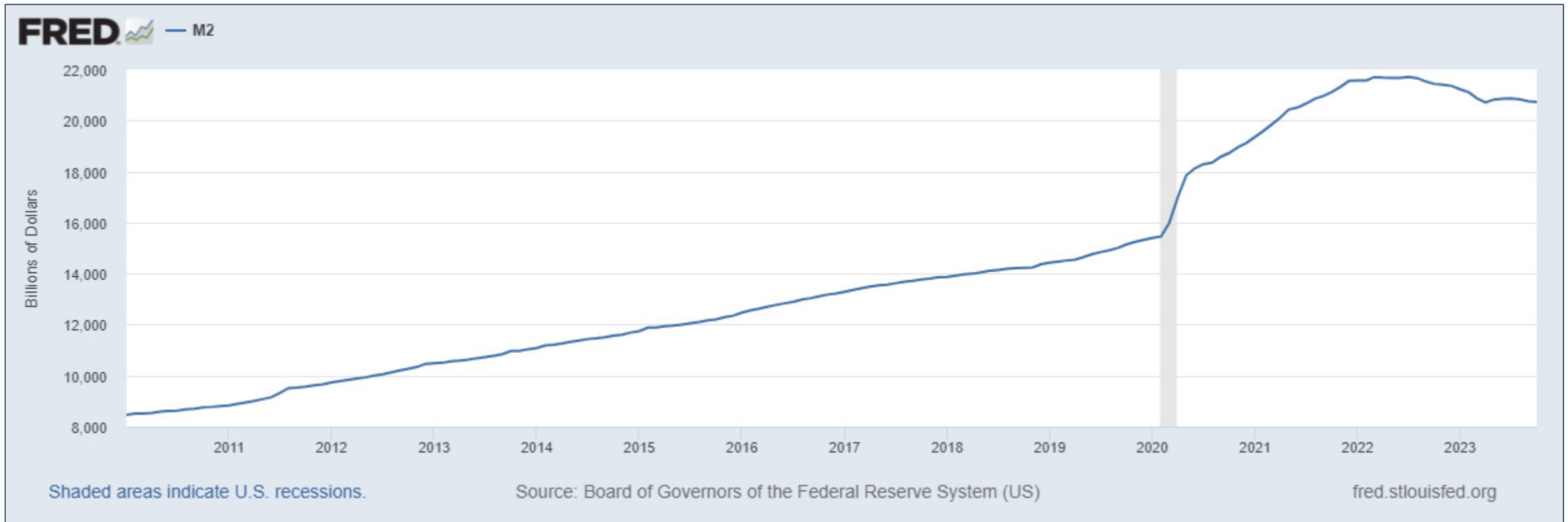


Class Discussion

If the supply of money in a society rapidly increases, what might happen to the value of money?

The U.S. Money Supply

Since 2010, the U.S. Money Supply has **increased by 250%**



M2 is a measure of how much “ready-to-use” money is available in the economy. M2 is a category of money that includes all the cash people have on hand, the money in their checking and savings accounts, and other types of accounts that are easy to turn into cash.

This is How Your Instructor Thinks of Money



A Ledger

to keep track of how much money exists and who owes how much money to whom.



A Tool

to facilitate commerce and support people's needs to spend and to save.

Money Mavericks

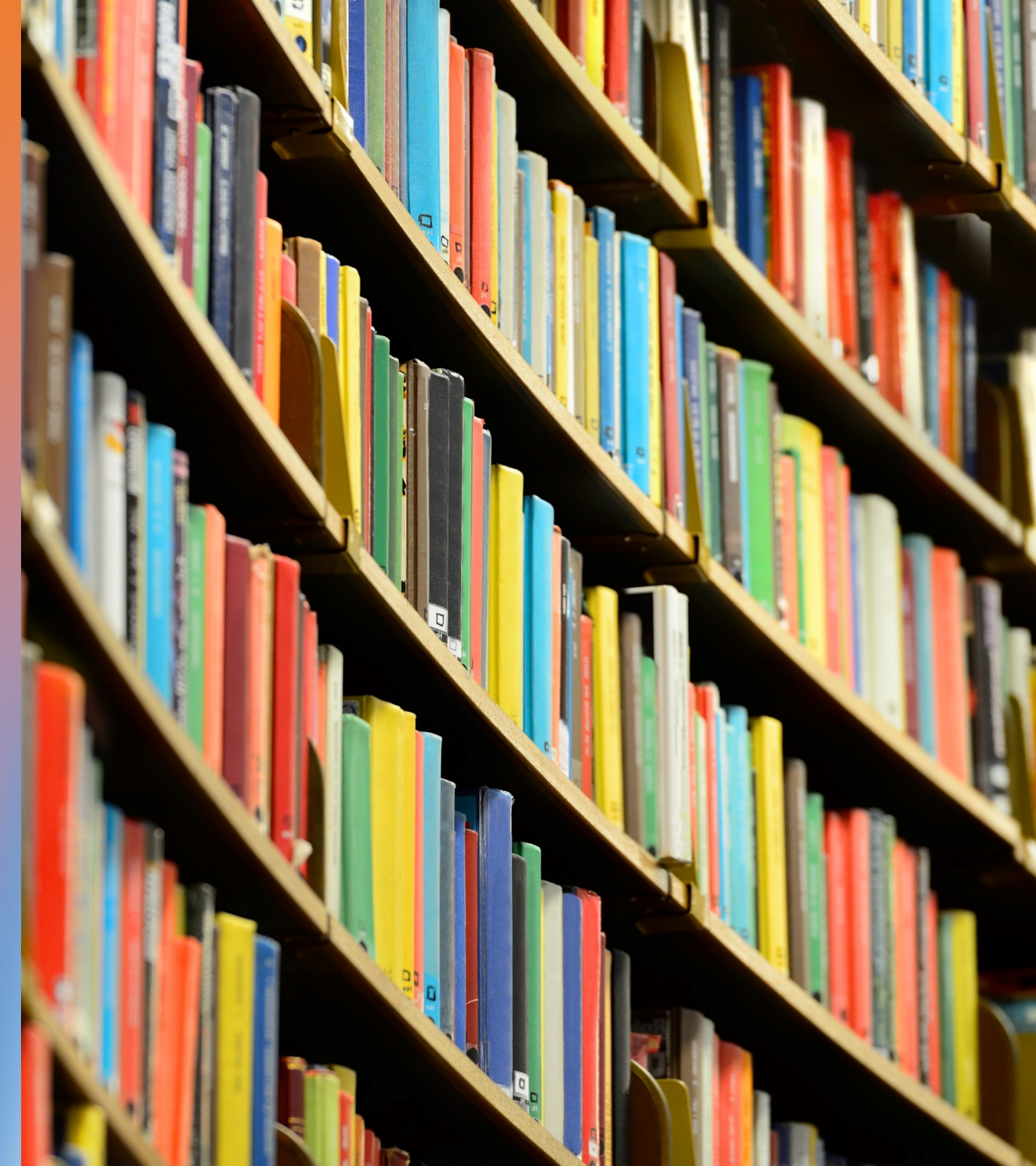
Objective: Each group will analyze different forms of money and present arguments for what form of money they believe is the best form of money, considering money's functions as a **medium of exchange**, a **store of value**, and a **unit of account**.





Three Key Takeaways

1. Money has only been around for 7,000 years of the 300,000 years that modern humans have existed.
2. Money emerged to satisfy human needs to spend and to save.
3. Money functions as Medium of Exchange, Store of Value, and Unit of Account.



Where to Learn More

- [What is Money: Examining Its Role in Society](#) by Petros Koumantaros
- [What is Money, Anyway?](#) by Lyn Alden
- [Broken Money](#) by Lyn Alden