

Financial Literacy (“finlit”)
Winter Term 2023 - 2024
November 30, 2023

Foundations of Money Class 3: Money Theories & Business Plan Project



Principal Theories of Money



Commodity Theory of Money

Money is a good that is made of or represents something valuable, like gold or silver.



Credit Theory of Money

Money is a promise to pay, like an IOU, and its value comes from the trust that the promise will be kept.



State Theory of Money

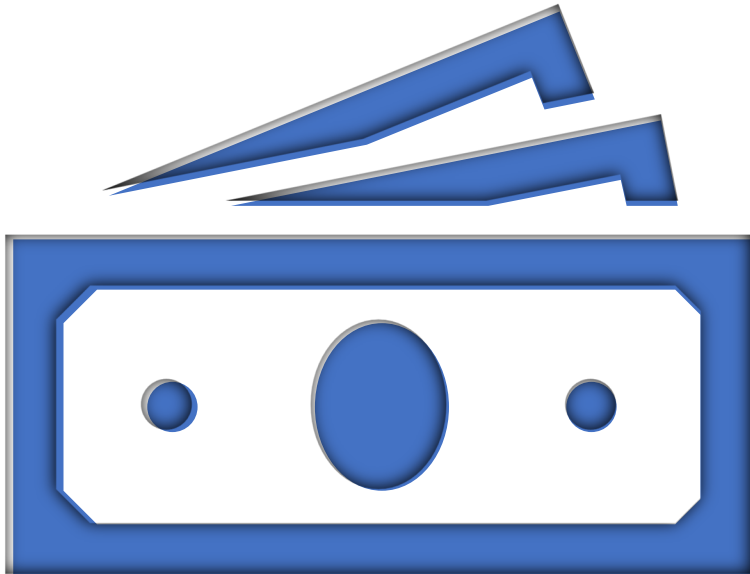
Money's value and legitimacy comes from the government that legalizes and regulates it. Commodity or fiat.



Class Discussion

What theory of money do you think we have adopted in the United States?

The United States: Fiat Money Theory



- Fiat Money Theory is a subset of State Theory of Money
- Fiat means, “by decree”
- Fiat money has little to no intrinsic value
- Commodities do not back fiat money
- Fiat money’s value stems from government decree
- Public trust in fiat currency is paramount

Practical Application



1. Someone pays you \$100 in exchange for something (example: 6 hours of lawncare, 6 hours of babysitting, an item of memorabilia, a few used video games, etc.)
2. Write down your answers to the following questions:
 - Would you accept an IOU from the buyer?
 - How long would you give the buyer to repay the IOU?
 - What would you do if the buyer never repaid the IOU?

Money Mavericks

Objective: Share your answers to the Practical Application questions. Then, discuss the following: (1) What makes some people more trustworthy than others to repay IOUs, and (2) What could sellers do to reduce the risk of buyers not paying back IOUs.





Business Plan Project

Business Idea & Business Plan Project within Money Mavericks Groups



Develop Business Idea

What problem does your business solve? Who are the business's target customers?



Write Business Plans

How does the business earn money? What are the ongoing costs? How will it differentiate?



Present Your Business Plans

Each Money Mavericks Group gives a 10-minute presentation of their business plan to class



Class Discussion

*What is an
entrepreneur?*

*Can you
identify some
examples of
people who are?*

“The purpose of a business is to create a customer.”

Peter Drucker

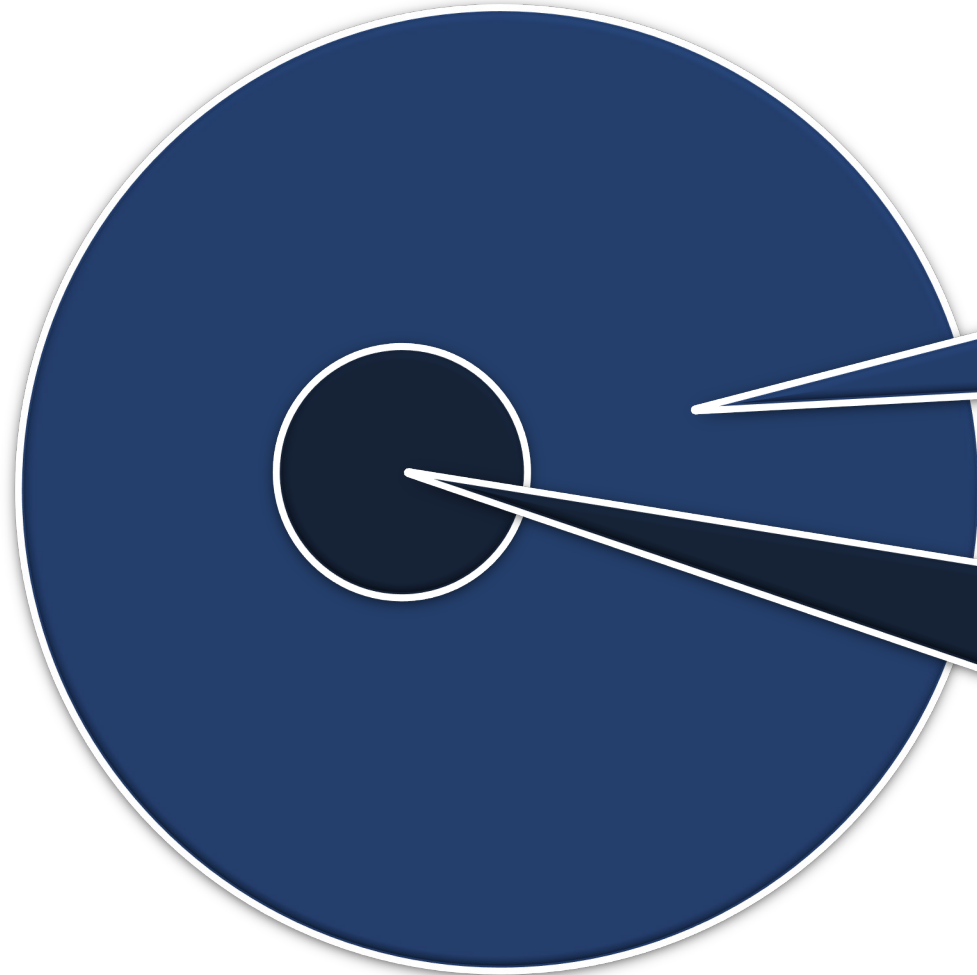
Management Consultant,
Educator, & Author



Customers Pay to Resolve a Problem

People part with their money only if they can satisfy a **'need'** or a **'want'**

Problems Worth Solving for Customers



All problems that
exist

Problems that
customers will pay
to have solved



Class Discussion

*What problems do the following businesses solve:
Amazon; Apple;
Netflix; Under
Armour?*

Kevin Plank

Founder of Under Armour

Identifying a
Customer
Problem
Worth Solving

[Launch Video](#)



Money Mavericks

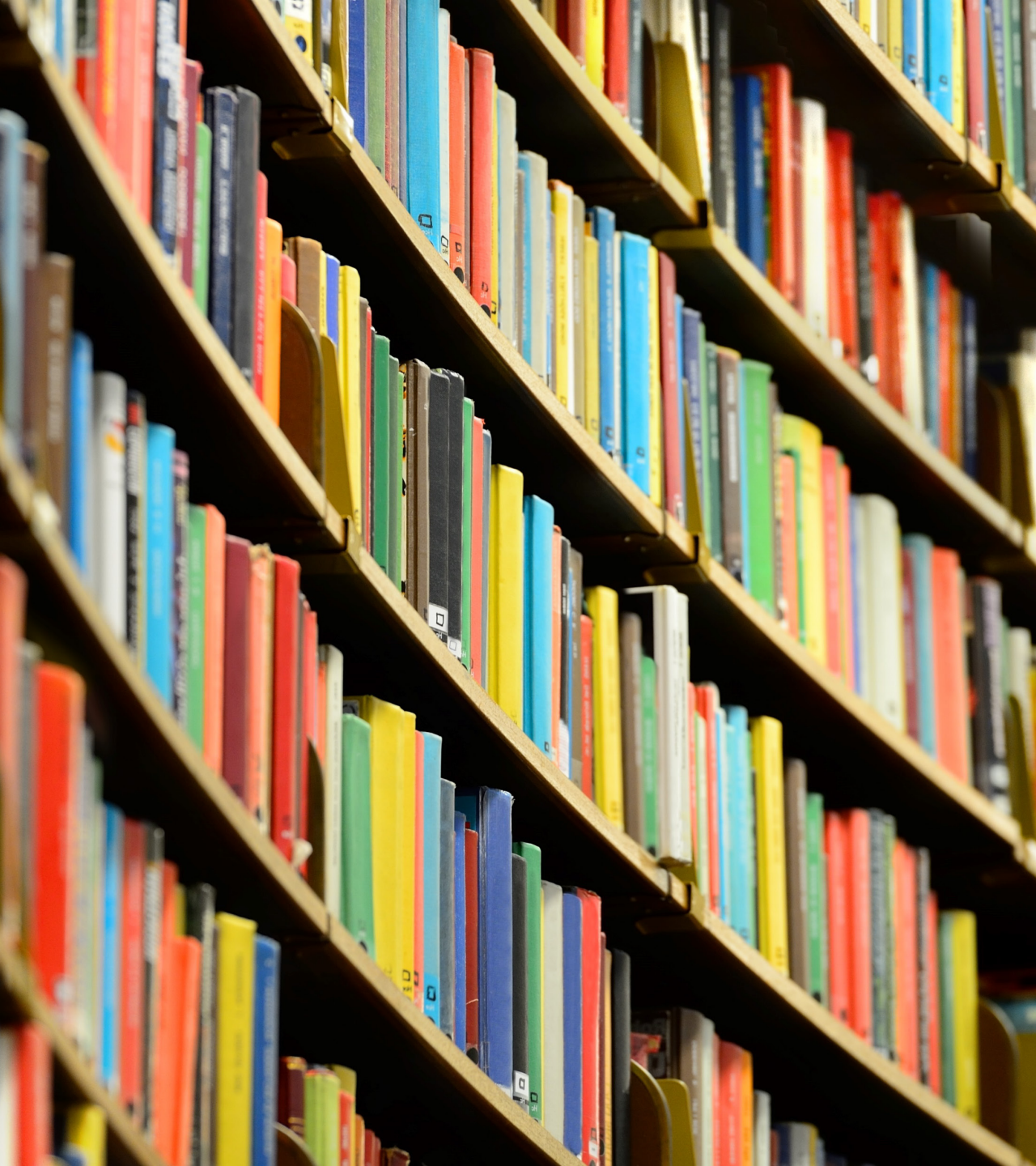
Objective: Brainstorm problems that people face. These could be day-to-day problems, simple problems, or complicated problems. Discuss whether those problems have potential customers who are willing to pay to resolve the problems.





Three Key Takeaways

1. The Commodity Theory of Money views money as a good, whereas the Credit Theory of Money views money as IOUs.
2. IOUs depend on trust where sellers trust buyers to make good on promises.
3. Businesses must fulfil customers' needs and/or wants by resolving problems that customers are willing to pay to have resolved.



Where to Learn More

- [What is Money, Anyway?](#) by Lyn Alden
- [The Essential Drucker](#) by Peter F. Drucker
- [Teen Entrepreneurship: The #1 Book for Teenage Entrepreneurs](#) by Jack Rosenthal