

Student Guide

Class #2 – Purposes of Money

Exercise: What's the difference between a \$20 Bill and a ~~4~~20 Monopoly Bill? Why do people accept one for goods, services, and information, but not the other?

Exercise: What characteristics are necessary for something to function as money?

Exercise: Based on the functions of money, what are viable forms of money, other than national currencies?

Most people associate money with a national currency. National currency is money issued by a government. As an example, the national currency of the United States is the U.S. Dollar. All national currencies try to function as money, but not all money is a national currency.

Money has 3 functions:

1. Store of Value (SoV) – Money retains value over time
 - Example: Person A holds money because its value is stable and is not lost quickly
 - **Exercise:** what characteristics make something a good SoV?
 - Characteristics: scarcity and durability
2. Medium of Exchange (MoE) – Money is traded for goods or services
 - Example: Person A trades money with Person B in exchange for Person B's goods or services
 - **Exercise:** what characteristics make something a good MoE?
 - Characteristics: acceptability and portability
3. Unit of Account (UoA) – Money is a common measurement to determine the market value of something
 - Example: Person A has a bank account balance, which is denominated in monetary units
 - **Exercise:** what characteristics make something a good UoA?
 - Characteristics: divisibility and fungibility

Key Takeaway

For something to function as money, it must be a good store of value, medium of exchange, and unit of account.