How money differs from other goods in the market

First, money is far from the root of all evil–that could only apply to the love of, or obsession with, amassing money.

Money is beneficial because (free) trade is an a priori win-win activity (as perceived by each party ex-ante). Trade promotes peace for this reason. ‘If goods don’t cross borders, armies will.’

We know that money acts as a bartering good (medium of exchange) for all other goods in the market. We know that money liberates (exchange of) goods in the market from the inconvenience of direct barter. It solves the problem of the double coincidence of wants. That is, the necessity, under barter, for one to find a buyer of one’s goods or services whose product one wants.

Second, we know that it provides a means of accounting where assets and the exchange of goods and services can be reduced to a single measure.

Third, we know that money is not consumed or exterminated as are goods and services to one degree or another. It is not desired as a direct means of satisfying ends or needs. It is not used up.

Fourth, whatever the supply or number of units of established money, the function it plays in the economy is the same. A similar country with twice as many money units as another would have roughly twice the price level but experience no functional difference.

Fifth, if a country with a stable economy is in transition to a state of greater or lesser supply of money, there are consequences due to the disruption of its use in calculation, and due to distributional disparities, as well as due to location and due to individual differences in income, wealth, and asset disposition, which includes differences in disposition over time.

Sixth, money is demanded for transaction, speculative, and store-of-value purposes. These, however, are all subsumed under its use as a means of exchange. These demands can be separate, especially during hyperinflation, when transaction demand increases while other demands decrease.

Seventh, the price of money is what it can be exchanged for, its purchasing power. It is thus measured best by the general price level, though inversely.

Eighth, in using the term ‘demand’, we mean a schedule or demand curve that may have a variety of quantities demanded at different intersections of the supply and demand for money. If supply is fixed (inelastic), an increase in demand (a shift out of the demand curve) can result in only a rise in its purchasing power (i.e., generally a fall in prices).

Ninth, money is a stock, not a flow. When the timing of income flows is matched to expenditure needs more efficiently, and when clearing-house techniques improve, such as with credit cards, the demand for money balances is reduced. Confidence in near-monies and other liquid assets can reduce this demand.

Tenth, the demand for money affects the price level. Reduced desire to hold money raises prices and hence reduces the real money supply, but not the number of units of money balances. The number of units is the monetary base controlled by the monetary authority in contemporary monetary regimes.

Eleventh, the price of present money is not the interest rate. Interest balances the exchange of present for future money; it could be seen as the rental price of money.