- Analyze the functions and characteristics of money and why it is necessary.

What is money

- Money is more than coins and bills it is anything that is customarily used as a medium of exchange, a unit of accounting and a store of value.
    - A dollar bill is only about 3 cents but society agrees it is worth $1.
- Fiat money-money that has value because a government has established It as acceptable form of payments for debts.

Medium of exchange

- Use of money in exchange for goods or services
  - Medium of exchange simply means that a seller will accept it in exchange for a good or service. Most people are paid for their labor in money, which they can then use to purchase whatever goods or services they want.
- Without money societies have to resort to bartering
- Barter- to exchange goods and services for other goods and services
  - Bartering is horribly inefficient because both parties must have what the other is looking for which is a rare situation. Bartering is most common in traditional economies.

Unit of accounting

- Use of money as a measuring tool for comparing the values of goods and services in relation to one another.
- Each nation uses 1 unit to measure the value of goods and services the same way 1 foot or 1 meter is used to measure distance

Store of value

- The use of money to store purchasing power for later use
  - During periods of rapid and unpredictable inflation and or contraction in the business cycle money is less able to act as a store of value

Characteristics of money

1. Durable- money must be able to withstand wear and tear of being passed from person to person. Paper money lasts one year on average. But old bills can be easily replaced coins last for years
2. Portable- money must be easy to carry. Through paper money is not very durable, people can easily carry large sums of paper money
3. Divisible- money must be easily divided into small parts so that purchases of any price can be made. Carrying coins and small bills make it possible to make purchases of any amount.

4. Stable in Value- money must be stable in value. Its value can change rapidly or its usefulness as a store of value will decrease.
5. Scarce- whatever is used as money must be scarce. That is what gives its value
6. Accepted- whatever is used as money must be accepted as a medium of exchange in payment for debts. In the US acceptance is based on the knowledge that others will continue to accept paper money, coins and checks in exchange for goods and services.

Money vs near money

- Tracking the money is difficult to make it easier for economists to track the supply of money, money must be classified.
- M1- this is the narrowest definition of money supply- the M1 category of money consist of money that can spent immediately and against which checks can be written.
- M2- broader definition of the money supply. Includes all of M1 plus other forms of near money such as money markets, mutual funds, stocks and bonds CDs and international currency.
  - Think money that is near you but you have to do something to get it.