

Lesson 04: Money

We're living in a world where business, education, shopping, traveling, and many other daily life activities depend on money. Money is one of the most important parts of our life. It allows individuals and households to meet their needs and enterprises to do business. In this lesson students will know the meaning of money and currency, its main forms and functions, and will learn how to measure money supply in an economy.



A. The concept of money and currency?

A.1. What is money?

Money is anything which is widely accepted in payment for goods and services, or in discharge of other kinds of business obligations.

Money is only a means and not an end in itself. It is demanded not for its own sake but because it helps us in buying goods and services to satisfy our wants. Money cannot directly satisfy human wants, but assists in production and exchange of goods and services. Its significance lies in its ability to command goods and services and liquidate business obligations.

A.2. What is a currency?

Currency is money in the form of **bills (notes / banknotes)** or **coins** used in a particular country.

Note: a bill is paper money; a coin is a small, flat piece of metal used as money. We say **bills** in AmE and **notes** or **banknotes** in BrE.

For example, in the USA there are dollar bills for: **\$1 \$2 \$5 \$10 \$20 \$50 \$100**

Note: We put the symbol (\$, £, €, etc.) before the number, not after.

The US dollar is divided into **100 cents**, so one dollar equals 100 cents. There are coins for:

1¢ (a penny) 5¢ (a nickel) 10¢ (a dime) 25¢ (a quarter) 50¢ (a half)



10¢ (One dime)



One hundred-US dollar bill

Note: we say for example: 100 dollars or 10 cents (**plural**), but **the singular** form is used before **bill** or **coin**. **Example:** a hundred-dollar bill / a 10-cent coin.

Here are some main countries' currencies and their abbreviations (codes) and symbols.

Country	Currency	Divided into	Abbreviation (Code)	Symbol
The United States	US dollar	100 cents	USD	\$
European Union	Euro	100 cents	EURO	€
The United Kingdom	Pound (Sterling)	100 pence	GBP	£
Japan	Japanese Yen	–	JPY	¥
China	Renminbi or Yuan	10 jiao	CNY	¥
India	Rupee	100 paise	INR	₹
Russia	Ruble or Rouble	100 kopeks	RRB	₽
Algeria	Algerian Dinar	100 centimes	DZD	DA

If we want to **change (exchange)** one currency to another one, we must go to a **bank** or a **licensed money changer**. We have to pay a **commission** when we change money. The rate at which one currency will be exchanged for another currency is called '**the exchange rate**'.

B. Forms of money

There are many forms of money. The main forms are the following:

- **Commodity money:** is a commodity that has intrinsic value and used as a medium of exchange. For example: cowrie shells, salt, cattle, wheat, gold, silver etc. It is closely related to a **barter system**, where goods, services or assets are directly exchanged for other goods, services or assets without the use of money.
- **Metallic Money (coins):** the money made of metals such as: gold, silver, nickel, copper, bronze. When the face value of the coin is equal to the value of metal contained in the coin, it is called *a full bodied coin* (the gold and silver coins of old times are examples of full bodied coins). When the face value of a coin is greater than the value of the metal it contains, it is called *token money*. (In our country, all the coins are token money).
- **Paper Money:** refers to notes or bills of different value made of paper which is issued by the central bank or government of the country.
- **Fiat money:** is a form of currency that is declared legal tender by the government. It is backed by a country's government instead of physical commodities or financial instruments; therefore, it has no intrinsic value which comes only from the public's trust in the issuer. Most coin and paper currencies that are used today throughout the world are fiat money.
- **Representative money:** is money backed by a physical commodity such as Precious metals (gold and silver) or financial instruments such as checks and credit cards which are used today in place of traditional money. The value of this type of money depends on the commodity it backs.



- **Near money (Quasi-money or Cash equivalents):** consists of highly liquid assets which are not cash but can easily be converted into cash. Examples of near money include: savings accounts, certificates of deposit (CDs), liquid foreign currencies, money market securities, and government treasury securities (T-bills).
- **Crypto-currency:** is a digital currency that is backed by blockchain technology. It uses a decentralized system to record transactions and issue new units. The first crypto-currency was created in 2009 which is called **Bitcoin**, and it remains the most popular and valuable digital currency in the world today.



C. Functions of money

Money performs **five** basic functions which can be classified into two **heads**:

- **Primary Functions:** money performs two basic functions. It acts as a:
 - ***Medium of exchange:*** the use of money as a common medium of exchange has greatly facilitated the activity of buying and selling goods and services with minimum effort and time. Without money, exchange could be possible only through barter system.
 - ***Measure of value:*** money acts as a unit of account to measure values of all goods and services in terms of their money price. The use of money makes it possible to compare the relative values of different commodities and services over time and between different regions.
- **Secondary Functions:** the other important functions of money (derived from the primary functions) are:
 - ***Standard of deferred payments:*** The use of money as a standard of deterred (delayed) payments simplifies borrowing and lending operations because money generally maintains a constant value through time. Thus, money facilitates the formation of capital markets and the work of financial intermediaries.
 - ***Store of value:*** People can hold a part of their present earnings in the form of money to be spent in future. Money is a perfectly liquid asset, durable and more stable in its value and it is easy to store as it is relatively light in weight and occupies less space. Hence, it is convenient to accumulate wealth in the form of money which can be converted into any asset at any time.
 - ***Transfer of value:*** Money is the most convenient form in which value can be transferred from one person to another and from one place to another. This is because money is readily accepted by all and its cost of transfer is very low compared to other goods.

D. Measuring money supply

Money supply is the total quantity of money in the economy at any given time. **Measuring the money supply** means calculating the total stock of money in the economy at a particular time.

The most commonly used methods to measure money supply in an economy include: **M1** and **M2**.

M1 = currency in circulation + checkable deposits + traveler's checks.

M2 = M1 + savings deposits + money market funds + certificates of deposit (CDs)

Currency in circulation: coins and bills that circulate in an economy.

Checkable deposits or demand deposits: the amounts held in checking accounts in commercial banks.

Traveler's checks: the checks used by people when traveling to foreign countries.

Savings deposits: bank accounts designed for savings.

Money market funds: mutual funds that invest in short-term liquid debt securities.

Certificates of deposit (CDs) or time deposits: the accounts that the depositor has committed to leaving in the bank for a certain period of time.

Measuring money supply allows the government to know the situation of its economy, if there is inflation (too much money) or recession (too little money). Therefore, the government could use the appropriate monetary policy to control the levels of money supply.

Language review:

- The past simple tense

Form:

- **Positive:** subject + infinitive + **ed** (**regular verbs**): (worked /planned /studied /played). For **irregular verbs**, the past simple doesn't end in **-ed**. (be → **was/were**, do → **did**, go → **went**, pay → **paid**, get → **got**)...
- **Negative:** subject + **did not (didn't)** + infinitive. (**didn't** work / **didn't** study / **didn't** play / **didn't** do).
- **Question:** **did** + subject + Infinitive. (**did** I / you / we / they / she / he / it **work /study / play /do / go?**).

Uses: an action or an activity finished in the past (I **visited** Turkey **last** year. / We **started** the business about a year **ago**). **Series of completed actions in the past** (**Last** summer, my brother and I **went** to the sea. There, we **met** our friends. We **swam** a lot in the warm water and **played** football in the evening...). **With the past continuous –the past simple interrupted an action which was in progress in the past** (I was going to the train station when you **called** me / While children were playing outside, it **started** to rain).

Note: we use the past simple with these expressions: **Last** (night/week/month/year...). **Ago** (two hours ago, three weeks ago, four months ago...). **Yesterday** (morning, afternoon, evening..). In + past time (2010, the 1980s, the 18th century...).

Demonstratives: this, that, these, those

Demonstratives show where an object, event, or a person is in relation to the speaker.

This (singular) / **These** (plural) = **here**, **That** (singular) / **Those** (plural) = **there**

- We use demonstratives with a noun (do you like **this/that** picture?/ who are **these/those** people?), or without a noun (**this** is a nice house! / who is **that**? / which shoes do you prefer - **these** or **those**?).
- We use **that** for: something that has happened (**That** was a really nice meal. Thank you very much). Or in what somebody has just said (Ali has a new job.' Really? I didn't know **that**).
- We use **this is...** and **is that...**? on the phone (Hi Sarah, **this** is Karim. (**this** = the speaker) / Is **that** Sarah? (**that** = the other person).
- We use **this is ...** to introduce people (**a:** Adam **this is** Sami. **b:** Hello, Sami - nice to meet you.)

Exercise 1: Match each concept in Column A with appropriate definition in Column B?

Column A		Column B					
a. Barter		1. The value of goods or services for which the item can be exchanged. 2. A medium of exchange that is accepted as money because the government says it has value. 3. The value related to the tangible or physical properties of the object. 4. Bills and coins used as money in a particular country. 5. The ease of use of an asset as a medium of exchange. 6. Exchange of goods, services, or assets directly for other ones, without the use of money. 7. A good used as money that is also valuable in itself. 8. The conversion of one country's currency to another one.					
b. Currency							
c. Liquidity							
d. Currency exchange							
e. Commodity money							
f. Fiat money							
g. Intrinsic value							
h. Exchange value							
a	b	C	d	e	f	g	h

Exercise 3: Complete the dialogue with the correct expressions from the box?

A: How was your business trip to Japan?

B: Great, thanks. I'm just going to the bank to the money I didn't spend.

A: What's the in Japan?

B: It's the yen. Look – this is It's worth about \$3.50.

A: Oh, it's very nice.

B: Yes. Did you know that the yen is not other units? There are no cents, just yen.

A: What's the for the yen?

B: It's JPY.

abbreviation
500-yen coin
change back
divided into
currency

Exercise 3: choose the correct alternative to complete each sentence?

1. The dollar, the euro, the yen are all..... (**funds / currencies / monies**)
2. Money in coins and bills is called.....(**reserves / capital / cash**)
3. Without money, exchange could be possible only through.....
 (**barter system / financial system / credit system**)
4. When the face value of a coin is greater than the value of the metal it contains, it is called.....
 (**full bodied coin / bitcoin / token money**)
5. Money in coins and bills that is declared legal tender by the government is called.....
 (**representative / fiat money / commodity money**)
6. A measure of the money supply that includes currency in circulation, checkable deposits, and traveler's checks is called.....(**M1 money supply / M2 money supply/ M3 money supply**)

Exercise 4: According to the Federal Reserve (US Central Bank), the US money stock components, at the end of February 2015, were as follows: (**billions of \$**)

Currency in circulation = **\$1,271.8** / Checkable deposits = **\$1,713.5** / Travelers checks = **\$2.9**

Savings deposits = **\$7,712.1** / Money market funds = **\$610.8** / time deposits = **\$509.2**

- Calculate M1 and M2 money supply in the US economy at that time?

Homework: Talk about the currency, bills and coins of your country (Algeria), and a country that you have visited before. What is or was the exchange rate with your country's currency?