EW Customized Tutor

English, Economics, Politics, and Philosophy

Unit 2 Topics in Business
Lesson 2.1: What is money?

Pertinent Topics:

- The evolution of money

for example the evolution of phones

- Characteristics of money

features, attributes, standards, definitions

Success Criteria:

- I will understand how money evolves over time
- I will understand what are the characteristics of money
- I will be able to identify the characteristics of money during distinct periods.
- I will be able to answer why money is important

MINDS ON

Imagine, if we do not have money, what will happen? In fact, the invention of money can be traced back to 1000 B.C. Before that time people did not even know what money is. Money was not even a conceivable idea back then. Try to describe a world without money.

I think that everyone just swap things with each one.
They will just exchange what they have.
For example, they trade pigs with other products they want;
they use commodities (goods/services)
as their "money."

"Barter" : exchange something using goods or services

I. The evolution of money

Indeed, in 9000 BC, when the idea of money had not yet been conceived, people **bartered** with others in order to redeem their comparative advantages (recall the idea of David Ricardo). It

relative merit

was not until 1200 BC that people began to standardize the idea

“scarcity”

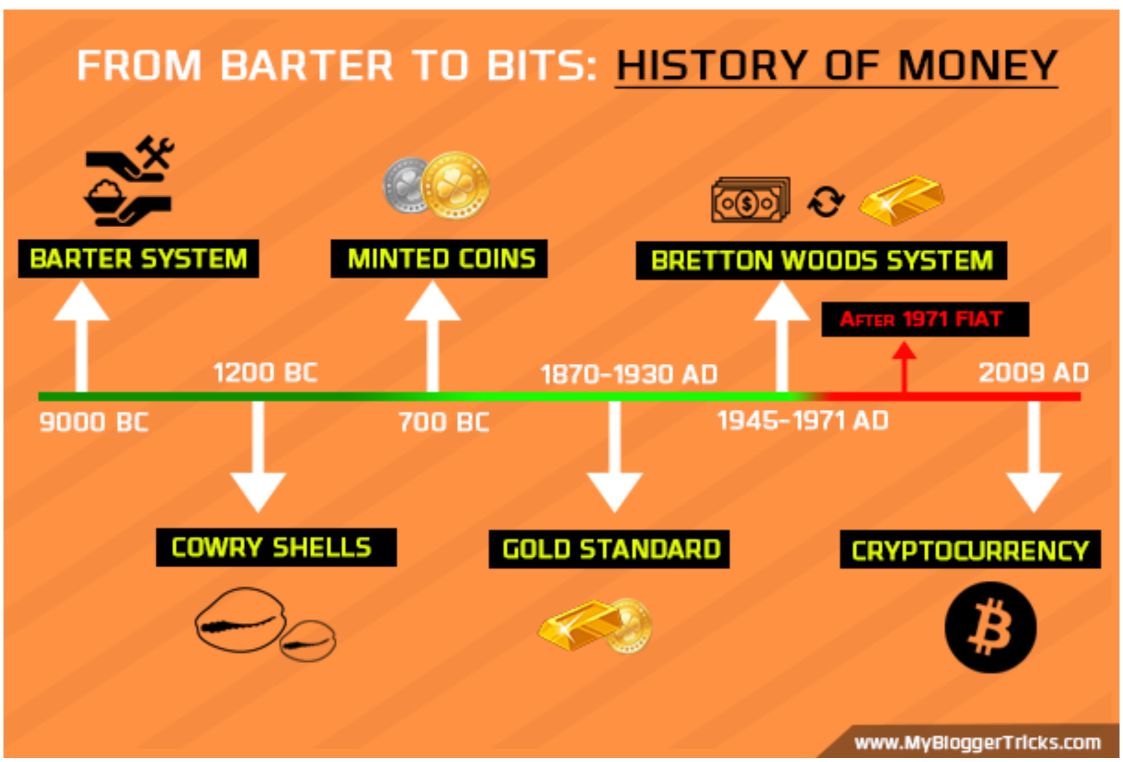
of money using **cowry shell.** Thereafter, **minted coins**, **metals**.

貝殼

And then **silver** and **gold** are used. Now let’s study them stage

national reserved (save something in advance)

by stage.



A. Barter System

Context: The oldest form of trade, predating formal currency systems.

Example: A farmer trading wheat for a blacksmith's tools. 鐵匠

Explanation: Direct exchange of goods and services without a medium of exchange.

Rationale: Emerged naturally where a common currency did not exist, facilitating trade.

Uniqueness: Requires a double coincidence of wants, making transactions less efficient.

B. Cowry Shells "money"

Context: Used as currency in various ancient cultures, particularly in Africa, Asia, and the Pacific Islands.

medium = means

Example: Pacific Island communities using cowry shells to purchase goods.

Explanation: Shells served as a medium of exchange due to their durability and portability.

A, to go to B, you must pass through a medium

Rationale: Natural availability and distinctive appearance made them a convenient form of money.

Uniqueness: One of the first universal forms of money, accepted across different societies.

medium is like a sail that connects people from two different ends

C. Minted Coins

Context: Introduced in Lydia around the 7th century BCE, representing significant advancement in monetary systems. system of money

Example: Silver drachmas in ancient Greece.

Explanation: Coins made from precious metals stamped with designs signifying authenticity and value. third-party (gov) makes sure that it is legit

Rationale: Facilitated trade with a standardized, durable, and divisible form of currency.

Uniqueness: The introduction of coins marked the beginning of regulated, state-backed currency.

Third party: A and B is trading, but they don't know whether the other person will be 'honest' so they fin C to make sure that A will not lie and B will not cheat. C is called the third party legitmacy (credential/ credibility)

D. Gold Standard international trade

Context: A monetary system where currency value is directly linked to gold, prevalent in the 19th and early 20th centuries.

Example: The British pound sterling under the gold standard.

Explanation: Countries maintained gold reserves to back the value of their currency.

Rationale: Stabilized currency values and facilitated international trade by providing a fixed exchange rate.

Uniqueness: Limited money supply to the amount of gold held, controlling inflation but limiting economic flexibility.

liquidiy

E. Bretton Woods System

Context: Established in 1944 to create a post-WWII international monetary system with fixed exchange rates.

to have a glabal currency

Example: The U.S. dollar became the central currency, convertible to gold.

Explanation: Countries pegged their currencies to the U.S. dollar, indirectly tied to gold, to stabilize exchange rates.

Rationale: Aimed to prevent competitive devaluations and promote economic stability.

over print their money

trade axises

Uniqueness: Led to the creation of major financial institutions like the IMF and World Bank.

for example, 30 taiwanese dollar can exchange 1 US dollar

F. Cryptocurrency

Context: Digital or virtual currencies, using cryptography for security, introduced with Bitcoin in 2009.

Example: Bitcoin, Ethereum.

Explanation: Operates independently of a central bank, using decentralized technology like blockchain.

Rationale: Provides a transparent, secure way to conduct transactions without intermediaries.

Uniqueness: Cryptocurrencies introduce the concept of decentralized finance, challenging traditional banking and monetary systems.

crypto means cipher (i.e., coded or encripted) elements, properties, qualities, standards

II. Characteristics of Money

persistence of something, hardness

There are five characteristics of money: durability, scarcity, acceptability, portability, and divisibility. But why?

divide

System	Origin	Durability	Scarcity	Acceptability	Portability	Divisibility
Barter System	Predates	Varied greatly	Dependent on goods available	Limited	Often impractical	Limited
Cowry Shells	Africa, Asia, and the Pacific Islands.	Moderately durable	Varied by region	Widely accepted in some regions	Highly portable	Not divisible
Minted Coins	Lydians in the 7th century BCE.	High	Controlled by state gov't	Generally high	Designed to be portable	Limited to denominations
Gold Standard	19th century, pegging currency value to gold.	High	Natural scarcity of gold	Globally accepted	Paper money is portable	Gold is divisible
Bretton Woods System	1944, international monetary system.	Relies on economic stability	Controlled by central banks	High for US dollar	High	High
Crypto-currency (Hayek)	Bitcoin, created in 2009	High	Controlled by algorithms	Growing but limited	Extremely high	Very high

intangible

Assignment: Why is money important? Is it possible for human beings to live in a society where money is not created?