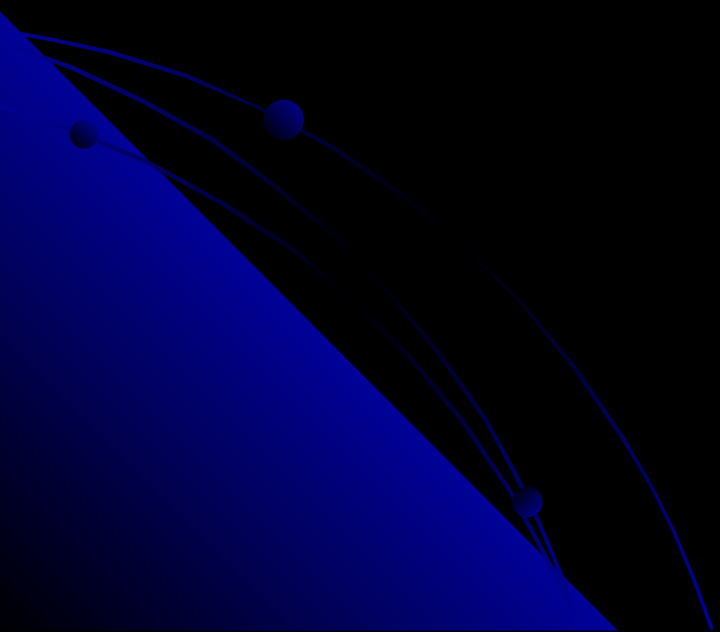


Economics 11-2

Early Banking and
Monetary Standards

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Early Banking and Monetary Standards

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ESSENTIAL QUESTION:

- What is the role of money and how does it facilitate exchange?
- 

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GPS STANDARDS:

SSEMA3- Describe how households, businesses, and governments are interdependent and interact through flows of goods, services, and money.

b.) Explain the role of money and how it facilitates exchange.

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Money is any substance that functions as a medium of exchange, a measure of value, and a store of value.

- It may seem odd to you that people once used a plant like tobacco as a form of money.
- People also once used giant rocks, cheese, and spears as money.

Early Banking and Monetary Standards

Money is something we all take for granted, but without it life would be quite different.

Think what life would be like in a **barter economy**, a moneyless economy that relies on trade.

Early Banking and Monetary Standards

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Without money, the exchange of goods and services would be greatly hindered because the products some people have to offer are not always acceptable or easy to divide for payment.

- Unless there is a “mutual coincidence of wants”—which means that two people want exactly what the other has and are willing to trade what they have for it—it is difficult for trade to take place.

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On January 1, 1999, most Europeans began using a new currency called the euro. Eleven countries —Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain—replaced their individual national currencies with the new currency so trade among the countries would be less cumbersome.

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Denmark, Greece, Sweden, and the United Kingdom, who are part of the European Union, chose not to adopt the euro currency.

They did not want to give up that much control over their national economy.

Functions of Money

Money is accepted by all parties as payment for goods and services.

Money can be used to express worth in terms that most people can understand.

Money holds its purchasing power until the buyer needs it.

Early Banking and Monetary Standards

Why is trade in a moneyed economy easier than trade in a barter economy?

In a barter economy a barter must find a seller in search of the exact goods that he or she has to offer.

2. Money is universally accepted.

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The use of money developed in ancient times because it made life easier.

A good like compressed tea leaves is known as commodity money.

- Fiat money is made valuable by government decree. (fiat money is conceptual money that we all agree that it will be money because the government says that it is money)

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What did America's native peoples use as money?

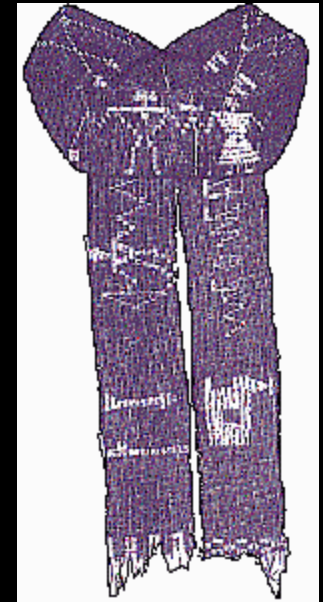
crops, berries, and other natural goods.

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Early Banking and Monetary Standards

Tobacco and wampum were once accepted forms of currency.

Wampum-beads of polished shells strung into strands, belts, or sashes used by Native Americans as money



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States passed laws allowing individuals to print paper currency, which was backed in local banks with gold and silver deposits.

During the American Revolution, Continental dollars were issued but without gold or silver backing, which made them virtually worthless by the end of the war.

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Specie, or gold and silver coins, were commonly used in the colonies.

Because they were in limited supply, they had more value than paper currency.



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When the nation began, the most plentiful coin in circulation was the Spanish peso.

Benjamin Franklin and Alexander Hamilton differentiated the dollar system from the pesos by dividing the dollar into tenths rather than the peso's pieces of eight.

Characteristics of Money:

Money must be portable, or easily transferred from one person to another.

Money must be durable so it lasts when handled or stored for long periods.

Money must be divisible to facilitate all types of transactions.

4. Money must be in limited supply to retain its value. (if you expand the money supply it loses its value)

