

MONEY



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What is money?

Money is anything that is generally accepted as payment for goods and services or in the repayment of debts. When ordinary people consider money, they have in mind **currency**. Currency is coins and banknotes. Rich people have a lot of money, which is not only currency but also stocks, houses, cars as well as currency. **Wealth** is a broader definition. Wealth is total collection of property that is used to store value. People and firms can store value in paintings, veteran cars, houses, flats, gold, etc. **Income** is also related to money. It is a flow of earnings per unit of time. For example, my teacher's income is 800 EUR per month while the income of an IT specialist is 1700 EUR per month.

Functions of money

Medium of Exchange. Money is used to pay for goods and services. Money replaced barter trade where one good was exchanged for another good. Let us imagine that your family keeps cows and produces cheese from milk. And you needed a pair of jeans. Without money you would have to find someone who produces jeans and needs cheese. With that person you would trade cheese for jeans. It is possible but it would be extremely time-consuming to exist in a society without money.

Unit of Account. Money is used to measure the value of goods and services. If Peter owns one flat that has the value of 50 000 EUR and one car which price is 10 000 EUR then Peter's overall value measured in money is 60 000 EUR. This is easier to account for than just enumerate all items.

Store of Value. Money can be used to store value from time we obtain income to time when we want to spend money on purchasing goods or services or repay debts. To store value people and firm can use not only money but other assets like stocks, term accounts, bonds, or houses and other property. Some assets are better at storing value than money.

Liquidity

Relative ease and speed with which an asset can be converted into money. **Money is the most liquid asset** and therefore many people keep it as a store of value. Money is available if we need to use it to pay for something. Money on current account in the bank is also very liquid because it is readily available. Money on the term account is less liquid because we must wait to maturity of the term account to withdraw the money or to pay a fine for premature withdrawal. Bonds and stocks are still less liquid. Land is a better store of value than money because its value increases over time but it has very low liquidity. Land needs to be sold to get money to use it for other purposes. However, selling land takes some time, at least a few months. If you want to sell land quickly, you lose a lot of value, because you have to lower the price of land in order to sell it in a short period of time.



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Development of money

Money was different thing in the history. Originally money was animals, especially cattle. Camels remained money in some nomadic societies in northern Africa until today. In prisoners' camps during WWI or WWII and even in current prisons cigarettes often serve as money.

For a long time in the history of humankind precious metals (gold and silver) were used as money. Gold and silver were later replaced by paper money (banknotes) and coins (not from gold or silver). First banknotes and coins were backed by gold and silver. Nowadays banknotes and coins are not backed by gold and silver but paper money and coins are guaranteed by the state only.

Electronic payments nowadays dominate. Instead of paying with five camels or a bag of silver coins or with 20 banknotes people currently pay mainly electronically. All banks provide their clients with electronic payment systems that saves money and time.

Bitcoin

Bitcoin was created in 2009. It is not controlled by central bank but rather it is decentralized. New bitcoins are created by mining, i.e. using computer power to verify and process bitcoin transactions. Bitcoin uses modern technology, which is called blockchain that allows to record transactions in decentralized manner on the internet.

Bitcoins are becoming a very popular digital money. It is an excellent medium of exchange. However, it is very anonymous, which creates a danger that bitcoins can be abused by drug dealers for illegal activities. However, bitcoins are very volatile. Its price changes abruptly from low to high values and vice versa. Therefore, bitcoins are not good to store value or to record transactions. It is therefore expected that bitcoins are not money of the future but blockchain technology is very promising and will be used further.



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