

CIE Economics AS-level

Topic 1: Basic Economic Ideas and Resource Allocation

f) Money


Notes




The functions of money:


- **A medium of exchange:** without money, transactions were conducted through bartering. Goods and services were traded with other goods and services, but people did not always get exactly what they wanted or needed. The goods and services exchanged were not always of the same value, which also posed a problem. Exchange could only take place if there was a **double coincidence of wants**, i.e. both parties have to want the good the other party offer. Using money eliminates this problem.
- **A measure of value (unit of account):** Money provides a means to measure the relative values of different goods and services. For example, a piece of jewellery might be considered more valuable than a table because of the relative price, measured by money. Money also puts a value on labour.
- **A store of value:** Money has to hold its value to be used for payment. It can be kept for a long time without expiring. However, the quantity of goods and services that can be bought with money fluctuates slightly with the forces of supply and demand.
- **A method of deferred payment:** Money can allow for debts to be created. People can therefore pay for things without having money in the present, and can pay for it later. This relies on money storing its value.

Barter

 This involves exchanging goods or services for other goods and services, without the use of money.

Cash and bank deposits


 A cash deposit is money that is injected into a money market or savings account, sometimes through a money transfer. The money can be withdrawn when the transaction is complete.

 A bank deposit is money kept in a bank to keep it safe. The deposit is a liability owed by the bank to the person making the deposit.

Cheques


 This is an order to pay a bank a stated amount from the drawer's account.

Near money

 An asset which can be converted into cash easily.

Liquidity



 This is the availability of liquid assets, such as cash, in a market or company.

