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CLASS: SS 1

SUBJECT: ECONOMICS

TOPIC: MONEY

Money can be defined as anything that is generally acceptable as a medium of exchange and at the same time act as a measure and store of value. Money is a means of exchange in payment of goods and services or for settlement of debts.

TRADE BY BARTER SYSTEM

Trade by barter is a direct exchange of goods for some quality of other goods without the use of money, it is the means of exchanging goods for goods and services for services.

PROBLEMS OF TRADE BY BARTER SYSTEM

1. Double coincidence of wants.
2. Problems of indivisibility of some goods to be exchange (how to divide large items into smaller units)
3. Problems of the rate of exchange (no common standard of value for exchange)
4. Problems of storage or saving (especially for perishable goods that are difficult to store)
5. There was no standard for deferred payment.

TYPES OF MONEY

- Coins: are money made of metal.
- Bank notes: are made of paper issued by the central bank.
- Bank deposit: are deposit kept in the commercial bank.
- Quasi money: are bills of exchange, promissory notes, cheque, money and postal order.
- Token money: are representative of money.

QUALITIES/ CHARACTERISTICS OF MONEY

1. Acceptability; being generally accepted as a means of payment.
2. Homogeneity or standardised unit; each unit must be identical in size, shape, colour and quality.
3. Divisibility; ability to broken into smaller units to facilitate transactions.
4. Relative scarcity; must be scarce so as not to lose its value.
5. Portability; easily transmissible and convenient to carry.
6. Stability in value; must relatively stable for a long period of time and does not fluctuate.
7. Durability and cheap maintenance; ability to store money for a long time without loosing its value.
8. Recognisability; be easily recognised and identified by members of the society.

FUNCTIONS OF MONEY

1. It serves as a medium of exchange (buying and selling) for goods and services.
2. It serves as a unit of account; record of payments and receipts can be conveniently kept in monetary units.

3. It serves as a measure of value; value of goods/ services is expressed in prices.
4. Money is used as a store of value; the easiest means of storing value for future use.
5. Money act as a standard for deferred payment; makes it possible to buy goods on credit and pay at a later date.
6. Money is a dynamic instrument in speeding up economic development.
7. Money is used for one-way payment; used for paying taxes and given as gifts.

DEMAND FOR MONEY

The demand for money refers to the desire to hold money; that is keeping one's resources (wealth) in liquid form rather investing it. Lord Keynes postulated that there are three motives/ reasons for behind the demand for money.

- The transactionary motive; this motive involves people keeping money for their day-to-day transactions, for purchasing their daily requirement such as food, clothes, etc. The amount of money held depends on one's level of income and the interval between one pay-day and the next.
- The precautionary motive: the motive involves people keeping money with them so as to be able to meet up with unforeseen contingencies. Someone in the family may suddenly fall ill, an unexpected but important expenses, the level of income may also the amount of cash balance that is kept.
- The speculative motive: the speculative motive for holding money relates to people's desires to hold money for the purpose of taking full advantages of investment opportunities. This is a business motive in which people keep cash balances for the purpose of investing in securities or bonds.

SUPPLY OF MONEY

This is the total stock of money available for use in an economy at a given period of time. It consists of two major items;

- Currency in the form of bank notes and coins circulating outside the banking system.
- Bank deposit in current account which are withdrawable by cheque (I.e demand deposit). The supply of money is determined by the amount of currency put into circulation by the central bank and the credit policy of banks.

THE VALUE OF MONEY

The value of money refers to the purchasing power of money that is the quantity of goods and services which a given sum of money can buy. If money purchase fewer goods/ services, it means the value of money cause price rise.

ASSIGNMENT: DEFINE MONEY