

Barter system: goods and services traded directly, no money exchanged

- Can't split some goods like animals
- Each trader had to have something the other wanted

Money: anything generally accepted in payment for goods and services

- Not the same wealth (total collection of assets that store value) or income (flow of earnings per unit of time)

Commodity money: something that performs function of money and has alternative uses

- Gold, cigarettes, silver

Fiat money: something that serves as money, but has no other important uses.

- Coins, paper money

Representative money: claim on a commodity (gold or silver certificate) our money used to represent gold on deposit

Check-book money: demand bank deposits subject to check (debit cards, checks)

3 Functions of Money

1. medium of exchange: used for buying and selling
2. measure of value or common unit of account
 - measures value of goods
3. store of value (can be saved)
 - store purchasing power for future without dying or spoiling

3 Components of Money

Liquidity: ease with which an asset can be accessed and converted into cash (liquidized)

- Checking account (high liquidity) vs. real estate

Money supply

- Institutions offering checkable deposits
 - Commercial banks
 - Savings and loan associations
 - Mutual saving banks
 - Credit unions

Medium liquidity

- M_1 plus near: monies
- Savings deposits including money market deposit accounts
- Small-denominated time deposits (CDs= certificates of deposit) + money market mutual funds

Low liquidity