

Money and finance:

Specialization → first step towards a wealthier society → division of labour

Barter= exchanging one good or service for another → it has three main problems: fixing a rate of exchange, finding someone to swap with, trying to save up (save some cheese for a long period of time)

What is money:

- **A medium of exchange:** a good that is acceptable in exchange of any other good (don't have to wait for someone to swap with)
- **A measure of value:** all products have a price expressed in term of one single product= money which is a unit of account used to measure and compare the value of different goods and services
- **A store of value:** it doesn't lose its value with time and this makes you have the possibility to save up money so that you can spend it later on
- **A means of deferred (postponed) payment:** with money you can leave debts that you can then pay further on.
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Money has to possess the following characteristics:

- Acceptability → everyone accepts its value
- Durability → it must be strong and durable so that they can be a store of value
- Portability → it should be easy to carry around
- Divisibility → it must be able to divide it into a smaller value for smaller purchases
- Scarcity → it must be limited in supply
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Financial institutions: business organizations in which people can keep their money safely and from whom people can borrow money.

People that want to store money and that want to borrow money creates the money market.

A **bank** is a financial intermediary, which brings together customers who want to save money and customers who want to borrow it.

Banks receive deposits of money from customers and they attract customers by promising in exchange an interest on their money or a share of banking profits. A bank then lends money to other customers.

The different types of banks:

- **Commercial banks:** they are set up to provide financial services for businesses and individuals. The services include: deposits of money and savings, helping customers making and receiving payments, making personal and commercial loans, buying and selling shares, providing insurance, pension funds, providing financial and tax planning advice, exchanging foreign currencies
- **Credit unions:** also known as saving and loans associations → specialized in providing mortgages to buy properties.
- **Investment banks:** they specialize in helping large business organizations raise finance to fund their operations and expansion.
- **Islamic bank:** it is based on the principles of Islamic sharia law which forbids interest charges and payments. It earns profit by the fees it charges the customers for banking services. People who deposit their money here won't be paid in interest but will instead earn a share of the bank's profits.
- **A central bank:** it is the centre of the banking system and its main function is to maintain stability of the national currency and the money supply. It is owned by the government. It has the following functions:

It issues notes and coins for the nation's currency (it prints money)