

**Department of common trunk**

**English for economy use class**

**1st & 2<sup>nd</sup> regiment: (groups : 4,5,6)**

**Subject 07 : The functions of money**

**Money** is defined as anything that is generally accepted in payment for goods and services or in the repayment of debts. The basis of the market economy is voluntary exchange. In the economy, the exchange usually involves money in return for a good or service.

This concept of money must be distinguished from two other terms:

**Wealth** = value of all property or assets, including currency and bank deposits, but also including stocks, real estate, etc.

**Income** = flow of earnings per unit of time.

Nowdays most people think of money as bills, coins, and checks. Historically, and in other economies, money might be shells, gold, or even goods such as sheep.

Economists identify money by the presence or absence of certain functions. Anything that is used as a medium of exchange, a unit of accounting, and a store of value is considered money. There are three principal functions of money

**A. Medium of Exchange:**

Money serves as a medium of exchange; it is used to pay for goods and services. By serving as a medium of exchange, money promotes economic efficiency by reducing transaction costs: the time and effort spent in exchange. Without money, trade must take place through barter -exchange goods and service for other goods and services. But barter can be quite costly, it can take time for you to find someone who both: has the good that you want and wants the good that you have. This is the problem of finding a “double coincidence of wants.” Money can solve this problem, since everyone will accept it.

**B. Unit of Account:**

Values of goods and services can be measured in terms of money. As serving as a unit of account, money reduces transaction costs by allowing all prices to be stated in common terms.

With barter, you must keep track of each good's price in terms of every other good. But with money, you only need to keep track of each good's price in terms of one good: money. Each nation uses a basic unit to measure the value of goods, as it uses the foot or meter to measure distance. In the United States, this base unit of value is the dollar. In Japan, it is the yen; in European Union, the euro. An item for sale is marked with a price that indicates its value in terms of that unit.

### **C. Store of Value:**

Money also serves as a store of value; it serves as a way of storing wealth. Other assets also serve as a store of value: stocks, bonds, real estate, etc. But money is unique in terms of its liquidity- the ease and speed with which an asset can be converted into a medium of exchange.

People usually receive their money income once a week, once every two weeks, or once a month.

However, they usually spend their income at different times during a pay period. To be able to buy things between paydays, a person can store some of his or her income in cash and some in a checking account. It is important to note that in periods of rapid and unpredictable inflation-, a general rise in the prices of all goods- money is less able to act as a store of value.

**Source: dr Nabila elmoffok: English for economy and business use, p24**