

Many commodities, ranging from precious metals to cigarettes, have been used as money. To see that society benefits from a medium of exchange, imagine a barter economy. In a barter economy, the seller and the buyer each must want something the other has to offer. Trading is very expensive in a barter economy. People must spend a lot of time and effort finding others with whom they can make mutually satisfactory swaps. The use of money -- any commodity generally accepted in payment for goods, services, and debts -- makes the trading process simpler and more efficient. Instead, they use fiat money that is mainly paper currency issued by governments and deposits in checking accounts that are accepted as a means of payments for goods and services. These are examples of commodity money, ordinary goods with industrial uses (gold) and consumption uses (cigarettes) which also serve as a medium of exchange. In modern economies, fiat money is supplemented by IOU (I owe you) money. Although the crucial feature of money is its acceptance as the means of payment or medium of exchange, money has three other functions. In most modern (modern) societies, however, commodities are rarely used as money because they are expensive. In Britain prices are quoted in pounds sterling; in America in dollars. In the nineteenth century money was mainly gold and silver coins. The essential condition for the survival of fiat money is the restriction of the right to supply it. Private production is illegal. Society enforces the use of fiat money by making it legal tender. IOU money is a medium of exchange based on the debt of a private firm or individual. Bank deposits are a medium of exchange because they are generally accepted as payment. A barter economy has no medium of exchange. Each person is simultaneously a seller and a buyer. Since money pays no interest and its real purchasing power is eroded by inflation, there are almost certainly better ways to store value. It serves as a unit of account, as a store of value, and as a standard of deferred payment. Money, the medium of exchange, is used in one-half of almost all exchanges. Workers exchange labour services for money. Goods are traded directly or swapped for other goods. The unit of account is the unit in which prices are quoted and accounts are kept. It is usually convenient to use the units in which the medium of exchange is measured as the unit of account as well. Finally, money serves as a standard of deferred payment or a unit of account over time. In prisoner-of-war camps, cigarettes served as money. A bank deposit is IOU money because it is a debt of the bank. Money is the medium through which people exchange goods and services. Money is a store of value because it can be used to make purchases in the future. Nobody would accept money as payment for goods supplied today if the money was going to be worthless when they tried to buy goods with it tomorrow. Houses, and interest-bearing bank accounts all serve as stores of value. The law says it must be accepted as a means of payment. When you have a bank deposit the bank owes you money. People buy or sell goods in exchange for money. There has to be a double coincidence of wants. To be accepted in exchange, money has to be a store of value.