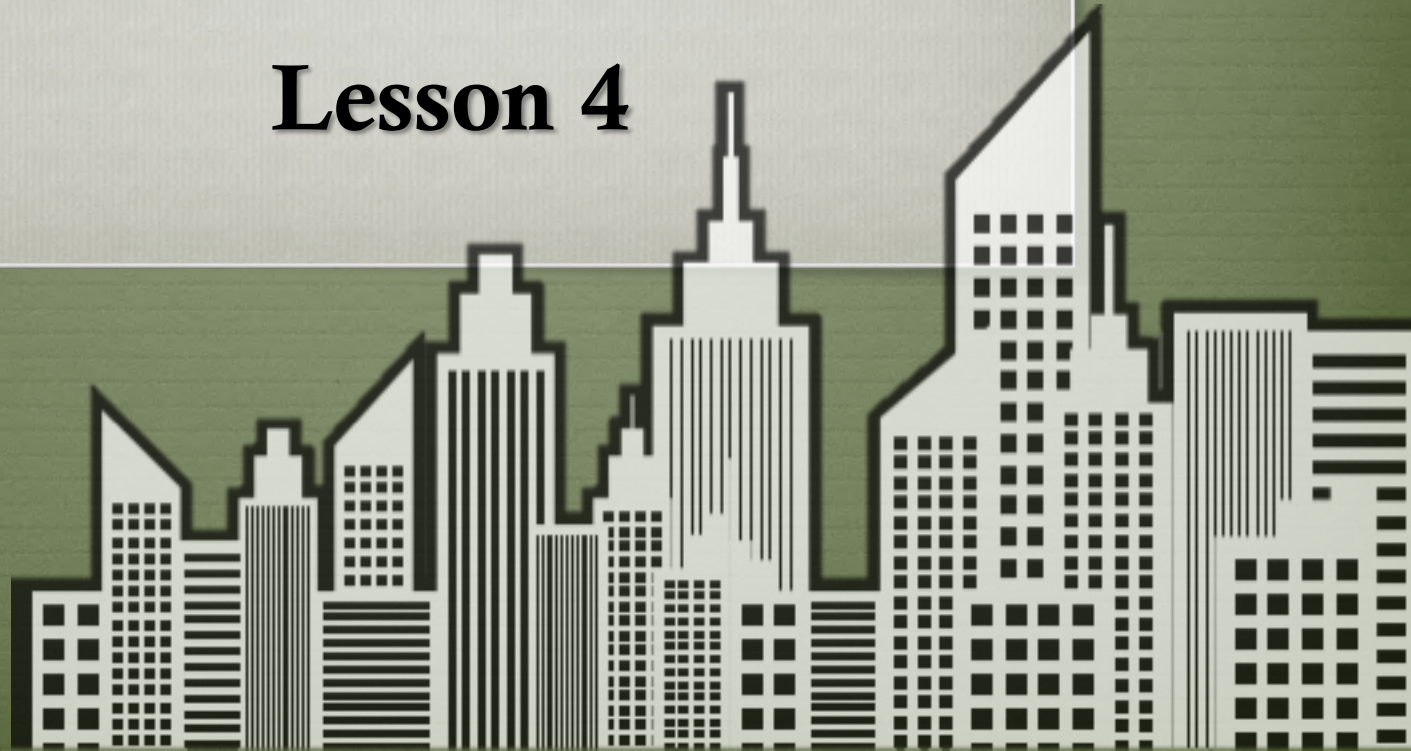


The Money Morph

Lesson 4



What Does *That* Mean?

Term	Definition
central bank	also known as a reserve bank or monetary authority; the institution that manages a nation's currency, money supply, and interest rates.
European Central Bank (ECB)	"ECB"; the central bank for the Eurozone; the ECB administers the monetary policy of the Eurozone and regulates the euro supply.
monetary policy	actions and decisions made by a central or reserve bank designed to maintain a healthy economy and commercial growth.
legal tender	medium of exchange recognized by the government of a country as national currency.

What Does *That* Mean?

Term	Definition
intrinsic value	value of the essence of a thing, such as the value of the metal within the coin.
gold standard	monetary system where a country's currency or paper money is backed by and redeemable in gold, and value tied to gold.
fiat money	currency that the government of a country has declared to be legal tender, not backed by a physical commodity.

What Does *That* Mean?

Term	Definition
electronic money	money held in a computer within the banking system and not in any physical form.
quantitative easing	QE; a reserve or central bank policy of increasing the money supply to stimulate the economy
virtual currency	VC; an electronically created peer-to-peer medium of exchange, unregulated by any government.
Bitcoin	a popular virtual currency.
electronic funds transfer	EFT; the electronic exchange and transfer of money from one account to another.

Reminder

- **Remember** to visit
[http://c21student.com/flashc
ards/](http://c21student.com/flashcards/)
to access the online flashcards!

Lesson 4 Objectives

- ❖ 1. Trace the evolution of money.
- ❖ 2. Explain intrinsic value.
- ❖ 3. Summarize the gold standard.
- ❖ 4. Differentiate between electronic funds and virtual currency.
- ❖ 5. Compare the risks and benefits of virtual currency.
- ❖ 6. Tell about the responsibilities of of the Federal Reserve Bank.

Money is Expressed As Currency

- ❖ Shells, cows, beads, chocolate, basically anything goes as long as a group of people has agreed the item will serve as their medium of exchange

Money Evolves with the Needs of Society

❖ Metal



❖ Paper



❖ The Gold Standard



❖ *Fiat*



❖ Electronic funds (bytes)

Where Does Money Come From?

- ❖ **Central banks, reserve banks, monetary authority** make monetary policy and control money supplies
- ❖ **U.S Federal Reserve Bank** works through 12 district banks to maintain optimal levels of the money supply
- ❖ Too much money = value of money **declines**
- ❖ Too little money = **slows economic growth**

Controlling the Supply of Money

- ❖ Responsibility of the Fed
- ❖ Money is cash and electronic funds
- ❖ Money should be scarce, but not too scarce...
- ❖ Money is moved in and out of the money supply by bank reserves, loans, adjusting Fed discount rate, and Open Market Operations

Virtual Currency

- ❖ AKA *cryptocurrency*
- ❖ Peer to peer (or p2p)
- ❖ Stateless = not monitored for criminal activity or stability
- ❖ Unstable values
- ❖ Exchanges subject to hacks
- ❖ Bitcoin and others gaining in popularity

A financially literate person should have a basic understanding of the risks and benefits of VC.

The Big Picture

The inefficiencies of barter inspired the rise of money. Money has evolved to meet the needs of commerce. It began as commodity money, like shells, evolved to metal coinage, and to paper backed by precious metal. The U.S. went off the gold standard in 1971. Legal tender is backed by fiat. We are evolving into a cashless society where money is in the form of electronic bytes moved via EFT's. Virtual currencies, like Bitcoin, are gaining in popularity. VCs have no government oversight. Financial literacy includes understanding the risks and benefits of VC. The Fed controls the U.S. money supply by pulling money out of and injecting money into the economy through its district Reserve Banks, buying or selling government bonds, and setting interest rates. To be financially literate, it is important to know about the roles and powers of central and reserve banks.

Ponder and Predict

- ❖ Moving from barter to money was a big step forward for civilization. As societies grew, each developed their own monetary systems. **What does that mean, and how did it affect commerce?**