Topic Page: Money

Definition: **money** from *The Hutchinson Unabridged Encyclopedia with Atlas and Weather Guide*

Any common medium of exchange acceptable in payment for goods or services or for the settlement of debts; legal tender. Money is usually coinage (metal coins having endured as a medium of exchange since the 8th century BC) and paper notes. Developments such as the cheque and debit and credit cards fulfil many of the traditional functions of money.

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Bank of England – Banknote Printing

History of Money from Ancient Times to the Present Day

Image from: **Florentine moneymen attend to business in an...** in *Encyclopedia of World Trade: From Ancient Times to the Present*

Summary Article: **money**
From *The Columbia Encyclopedia*

term that refers to two concepts: the abstract unit of account in terms of which the value of goods, services, and obligations can be compared; and anything that is widely established as a means of payment. Frequently the standard of value also serves as a medium of exchange, but that is not always the case.

Evolution

Many ancient communities, for instance, took cattle as their standard of value but used more manageable objects as means of payment. Exchange involving the use of money is a great improvement over barter, since it permits elaborate specialization and provides generalized purchasing power that the participants in the exchange may use in the future. The growth of monetary institutions has largely paralleled that of trade and industry; today almost all economic activity is concerned with the making and spending of money incomes.

From the earliest times precious metals have had wide monetary use, owing to convenience of handling, durability, divisibility, and the high intrinsic value commonly attached to them. Whether an article is to be regarded as money does not, however, depend on its value as a commodity, except where intrinsic worth is necessary to make it generally acceptable in exchange. The relation between the face value of an object used as money and its commodity value has actually become increasingly remote (see coin).

Paper currency first appeared about 300 years ago; it was usually backed by some “standard” commodity of intrinsic value into which it could be freely converted on demand, but even during the early development of currency, issuance of inconvertible paper money, also called fiat money, was not infrequent (see, for example, Law, John). The world's first durable plastic currency was introduced by Australia in a special issue in 1988 and in a regular issue in 1992. Plastic bills are more resistant to counterfeiting than paper, and a number of countries now issue plastic currency. In the 21st cent. the use of debit cards, credit cards, and smartphone apps to make electronic payments has increasingly supplanted currency in both retail and personal transactions.

The importance of money has been variously interpreted. While the advocates of mercantilism tended to identify money with wealth, the classical economists, e.g., John Stuart Mill, usually considered money as a veil obscuring real economic phenomena. Since the mid-20th cent., a group known as the monetarists has given increasing attention to the role of money in determining national income and economic fluctuations.

The Monetary System of the United States

The monetary system of the United States was based on bimetallism during most of the 19th cent. A full gold standard was in effect from 1900 to 1933, providing for free coinage of gold and full convertibility of currency into gold coin; the volume of money in circulation was closely related to the gold supply. The passage of the Gold Reserve Act of 1934, which put the country on a modified gold standard, presaged the end of the gold-based monetary system in domestic exchange. Under this system, the dollar was legally defined as having a certain, fixed value in gold. While gold was still thought to be important for maintenance of confidence in the dollar, its connection with the actual use of money was at best vague. The 1934 act stipulated that gold could not be used as a medium of domestic exchange. Subsequently, a number of measures de-emphasized the dollar's dependence on gold, and since the early 1970s, practically all U.S. currency, paper or coin, has been essentially fiat money.

Under the Legal Tender Act of 1933, all American coin and paper money in circulation is legal tender, i.e., under the law it must be accepted at face value by creditors in payment of any debt, public or private. Most of the currency circulating in the United States consists of Federal Reserve notes, which are issued in denominations ranging from $1 to $100 by the Federal Reserve System, are guaranteed by the U.S. government, and are secured by government securities and eligible commercial paper. A small fraction of the currency supply is made up of the various types of coin, none of which has a commodity value equal to its face value. Finally, an even smaller part of the circulating currency is composed of bills that are no longer issued, such as silver certificates, which were redeemable in silver until 1967, and bills in denominations between $500 and $100,000, which have not been issued since 1969. Starting in 1996, the Federal Reserve undertook the redesign of all paper bills, chiefly to deter a new wave of counterfeiting that uses computer technology; further changes, including colors in addition to green, were introduced in 2003. Today, however, currency and coin are less widely used as a means of payment than checks, debit cards, credit cards, and computer and smartphone electronic-payment apps; demand deposits (checking accounts) are, therefore, generally considered part of the money supply. Certain assets, sometimes called near-monies, are similar to money in that they can usually be readily converted into cash without loss; they include, for example, time deposits and very short-term obligations of the federal government. Funds that are frequently transferred from country to country for maximum advantage are called hot monies. The technical definition of the nation's aggregate money supply includes three measures of money: M-1, the sum of all currency and demand deposits held by consumers and businesses; M-2 is M-1 plus all savings accounts, time deposits (e.g., certificates of deposit), and smaller money-market accounts; M-3 is M-2 plus large-denomination time deposits held by corporations and financial institutions and money-market funds held by financial institutions. See also banking; on the regulation of the supply, availability, and cost of money, see Federal Reserve System and interest.

Electronic Money

Electronic payment systems, already in place for use by credit-card processors, were adapted in the 1990s for use in electronic commerce (e-commerce) on the Internet. Such “digital cash” payments allow customers to pay for on-line orders using secure accounts established with specialized financial institutions; related technology is used for on-line payment of bills and direct payments using smartphones to individuals and businesses. Virtual currencies are unregulated forms of exchange that act like money but are created and controlled by computer software and are typically not backed by, and often not recognized as money by, national governments. The best-known and most widely circulated virtual currency, Bitcoin, allows its users to make online payments that are not subject to government or bank scrutiny, which has led law enforcement officials to express concerns over its potential or actual use in bypassing currency controls, in money laundering, and in financing terrorist or criminal activities. It also has experienced security breaches and theft. Its utility as a substitute for currency in ordinary transactions, however, has been greatly diminished since its creation by the extreme fluctations in its value caused by its use as a speculative investment.

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