

Functions and Characteristics of Money

1. At the grocery store last week, you purchased \$93.25 worth of groceries. You paid for the groceries in cash. You gave the cashier four \$20 bills, a \$10 bill, three \$1 bills, and a quarter. What is the primary function of money exhibited here?
2. At the grocery store last week, you had to decide whether to buy the 14.5 oz. can of diced tomatoes for \$1.75 or the 28 oz. can of diced tomatoes for \$2.55. What is the primary function of money exhibited here?
3. Last year, you sold your game system to your friend Jimmy for \$125 in cash. You've been saving that money in a shoebox under your bed. You are saving the money to buy a new computer next year. What is the primary function of money exhibited here?
4. During the American Civil War, the U.S. government printed fractional currency notes to get around the fact that there were not enough coins in circulation. Between 1862 and 1875, the U.S. government printed fractional notes in denominations of 3, 5, 10, 15, 25, and 50 cents. The fractional notes were meant to restore what primary characteristic of good money?
5. The people of Yap, an island in Micronesia, have used giant stone wheels called rai when executing certain exchanges. The rai are heavy and therefore cannot be easily used to make daily transactions in a modern economy. What primary characteristic of good money would be violated by using the rai as money in our economy?
6. In many parts of the world, U.S. dollars are preferred to the local currency. Significant black markets that use U.S. dollars and not the local currency may arise in these countries. What primary characteristic of good money is violated by the local currency in these countries?
7. In the 17th century, Virginia, Maryland, and North Carolina began to use tobacco as currency. But, since tobacco could easily be grown in the southern colonies, tobacco did not always function well as money. What primary characteristic of good money was violated when tobacco was used as money?
8. Federal Reserve notes are printed on paper that is made from 75 percent cotton and 25 percent linen. This high-quality paper ensures that a \$1 bill left in the pocket of your jeans can survive your washing machine and dryer. If Federal Reserve notes were printed on copier paper, what primary characteristic of good money would likely be violated?
9. Inflation in Zimbabwe in 1998 was 32 percent. In August 2008, inflation was estimated at 11,200,000 percent. Also in 2008, Zimbabwe issued a new 100 billion dollar note. What primary characteristic of good money was violated by the Zimbabwean dollar during this period?

Money in the United States

Thousands of years ago, people **bartered**, or traded, for everything they needed. As civilization progressed, carrying around all the items one wanted to trade became burdensome and impractical. People realized they needed a standard unit of value to base their trades on. This unit needed to be small enough to carry easily, of widely accepted value, and difficult to copy. Coins, and later paper money, became this standard of value.

Coins were originally made of valuable metals. All coins of the same value were made of the same amount of precious metal. Today, pennies are made of copper-plated zinc. They are 97.5% zinc and 2.5% copper. Nickels are made of an alloy, a mixture of metals, that is 75% copper and 25% nickel. "Silver" coins (dimes, quarters, half-dollars, and dollars) are no longer made of silver at all. These coins are actually a copper core covered with the same copper/nickel alloy that is used in nickels. When coins are made, they are said to be **minted**. The U.S. Mint is the government agency in charge of making coins. Coins are minted in six different denominations (amounts) in the United States. These are the penny (1¢), nickel (5¢), dime (10¢), and quarter (25¢), along with the less-commonly used half-dollar (50¢) and dollar (100¢).



Paper money is officially called **Federal Reserve notes**. Originally, paper money was backed in silver or gold. That meant that you could take any one-dollar bill to a bank and have it traded in for its equal value in silver or gold. As the amount of money in **circulation** (money printed and currently being used) grew, paper money outgrew the country's supply of gold and silver. Now paper money is backed by the Federal Reserve and is protected in part by the Federal Reserve and in part by the government alone. Federal Reserve notes are printed in the following denominations: \$1, \$2, \$5, \$10, \$20, \$50, \$100. Until 1969, the Federal Reserve also issued bills in the amounts of \$500, \$1000, and \$10,000. With the prevalence of checking accounts and credit cards, these large denominations are no longer necessary.



Name: _____ Date: _____

Money Research Project

Use an encyclopedia, the Internet, real money, or other references to complete the following research project. Next to each denomination listed, state the famous figure printed on the bill and the illustration found on the reverse side.

In recent years, the U.S. Mint has issued coins with different famous figures and/or illustrations on pennies, nickels, quarters, and dollars. These programs honor states, presidents, historic events, and national parks. For an in-depth research project, concentrate on one type of coin and list all the current variations for that coin. You may want to create a poster or chart to display your information.



Bill Denomination	Famous Figure	Illustration
\$1		
\$2		
\$5		
\$10		
\$20		
\$50		
\$100		

Features of Money

Functions of Money

Our money has three main functions. First, it is used as a **medium of exchange**, meaning people will accept it in exchange for goods or services. Second, it can be used as a **unit of accounting**, which allows people to use it to keep records. Third, it has a **store of value**, meaning people can save it for future purchases.

Characteristics of Money

Anything that people are willing to accept in payment for goods and services can function as money. There are certain characteristics that an object must have to be classified as money.

<i>Characteristic</i>	<i>Description</i>
accepted	People will accept it in exchange for goods and services.
stable	The value is established and secure.
portable	It is convenient to carry around.
scarce	There is not enough to satisfy everyone's needs and wants.
divisible	It is easily divided into smaller parts.
durable	It will hold up under constant use.

Guarding Against Counterfeiting

The currency of the United States has undergone several changes in appearance since the first paper money was issued during the Revolutionary War. Recently, security features have been incorporated into the design to make it more secure against counterfeiting. **Counterfeiting** is illegally reproducing money for circulation. The **Secret Service** is the agency that investigates crimes involving the counterfeiting of United States money.

<i>Security Features</i>	<i>Description</i>
color-shifting ink	The numeral on the lower right corner changes color when the bill is tilted back and forth.
watermark	When the bill is held up to the light, another portrait of the person featured on the bill is visible.
security thread	A thread embedded in the bill glows when held under an ultraviolet light.
microprinting	The words "The United States of America" are printed so small they are hard to replicate.
fine-line printing patterns	Selected areas of the bill contain very thin lines incorporated in the design.

Assessment

Matching

- | | |
|-----------------------------|--|
| _____ 1. counterfeiting | a. agency that investigates crimes of counterfeiting |
| _____ 2. unit of accounting | b. accepted in exchange for goods or services |
| _____ 3. Secret Service | c. can be saved for future purchases |
| _____ 4. medium of exchange | d. illegally reproducing money for circulation |
| _____ 5. store of value | e. can be used in the keeping of records |

Fill in the Blank

1. Recently, _____ features have been incorporated into the design of bills to make them more secure against _____.
2. Money functions as a _____ of _____ for goods and services.
3. People can _____ money for future needs and wants.
4. On some United States paper money, the numeral on the lower right corner changes _____ when the bill is tilted back and forth.
5. A thread _____ in the bill glows when held under an _____ light.
6. The words "The _____ of _____" are printed so small they are hard to replicate.

Constructed Response

Suppose the United States has decided that it must change its currency from coins and paper money. Would rocks be an acceptable choice as a medium of exchange? Use information from the Characteristics of Money chart to support your opinion.

MONEY

Go to the following Website and take this tour about money. Go to each section and include 2 facts from each section and 2 things that you learned or that you found interesting. Be ready to share your findings with the class.

<http://www.frbatlanta.org/about/tours/virtual/money/>

Section 1: Before money: Barter	
Section 2: Common products as money	
Section 3: Value in use, value in exchange	
Section 4: Money simplifies trade	
Section 5: Money takes many shapes	
Section 6: Early coins	
Section 7: Paper money	
Section 8: Banking evolves	
Section 9: Commerce in the colonies	
Section 10: Early American money	
Section 11: After the Revolution	
Section 12: U.S. banks and money	
Section 13: The Civil War era	
Section 14: Progress and problems	
Section 15: The Fed and afterwards	
Section 16: Price stability: Goal of the Fed	

Name:

The Characteristics of Money

All money has three common characteristics:

1. It serves as a medium of exchange.
2. It is a unit of account.
3. It is a store of value.

Please answer the following questions:

1. Why do you think that it is means for money to be a “medium of exchange?”

Hint: What does it mean to exchange something?

2. What do you think it means for money to serve as a “unit of account?”

Hint: What is a unit?

3. Why do you think that it is important for money to serve as a “store of value?”

Hint: What does it mean to “store” something?

Economics Worksheet: Money!

Write the word or phrase next to its definition

Legal Tender	Savings Account	Debit Card
Checking Account	Barter	Currency
Money	Credit	Coins
Check	Debt	Collateral

- _____ 1. Anything that is customarily used as a medium of exchange.
- _____ 2. The exchange of goods and services for other goods and services.
- _____ 3. Forms of money that must be accepted by law for payment of public and private debts.
- _____ 4. The type of money that includes both coins and paper money.
- _____ 5. Metallic forms of money such as pennies, nickels, dimes.
- _____ 6. Property, assets, pledged by the borrower of money to protect the lender.
- _____ 7. Account with money deposited in it that can be withdrawn at by writing a check.
- _____ 8. Account where the bank pays the depositor interest based on the amount of the deposit.
- _____ 9. Allows you to purchase goods and services for a claim on money you don't have yet.
- _____ 10. Note for money drawn from a bank that can be used to pay bills or transfer money.

Define, or determine between, the following words or terms

11. Medium of Exchange _____
12. Unit of Accounting _____
13. Store of Value _____
14. Debt _____

Short Answer

15. What are the three functions of money? _____

16. What are the two types of money? Define each type. _____

17. What are the six characteristics of money?

18. What is the Federal Deposit Insurance Commission? _____

19. Explain the process of borrowing money. Include terms like debt, credit, collateral, and repossession.

Economics Worksheet: Monetary Policy and the Federal Reserve

Write the word or phrase next to its definition

Discount Rate
Reserve Requirements
Loose Money
Monetary Policy

Prime Rate
Tight Money
Interest Rate
The FED

Check Clearing
Government Securities
Fractional Reserve Banking
Credit Union

- _____ 1. The percentage of money that all banks must keep on hand, of **all** their deposits.
- _____ 2. This is where credit is in short supply and very expensive.
- _____ 3. The interest rate the federal reserve charges its member banks.
- _____ 4. This is where credit is abundant and cheap.
- _____ 5. The interest rate that banks charge their best customers.
- _____ 6. This is where banks are required to keep a percentage of all deposits on hand at all times.
- _____ 7. Money from a demand deposit account is transferred, to a bank to where check was cashed.
- _____ 8. The organization that performs all the banking functions for the Government.
- _____ 9. Promissory notes, or IOU's, the government issues it creditors, often in the form of bonds.
- _____ 10. Changing the money supply in order to affect the amount of credit, and the economy.

Define, or determine between, the following words or terms

11. Federal Open Market Operations _____
- _____
12. Fractional Reserve Banking _____
- _____
13. Monetary Policy _____
- _____

Short Answer

14. What are the 6 functions of the FED?

15. What is the difference between **loose** and **tight** money policies? _____

16. What are the ways the FED can **increase** the money supply? _____

17. What are the ways the FED can **decrease** the money supply? _____
