

Money and its functions

The functions of money:

output medium agents exchange buyer services

A _____ of exchange: The use of money overcomes the need for “wants” to coincide. Money allows _____ to _____ the goods and _____ they produce in order to obtain goods and services they want, without having to find a _____ in the market willing to take exactly the _____ they produce.

unit assign aggregate value account

A _____ of _____: To facilitate the exchange of different types of goods and services, money is used to _____ them a certain _____, expressed in a common way. It can therefore be used to calculate _____ values of goods and services.

divisible marketable store cash immediately

A _____ of value: Money, in its commodity, _____ or equivalent form, can be used to store value. It is much more _____ than goods, and because it is exchangeable for every type of _____ product, it can be used to acquire real goods and services _____.

Functions of money	fonctions de la monnaie
gold gold-standard silver	or étalon or argent
cash notes and coins coinage	argent liquide billets de banque et pièces la fabrication de l'argent
legal tender	monnaie ayant cours légal
cheque (US: check) credit cards	cheque cartes de crédit

currency foreign currency currency risk (the) single currency	monnaie, devise devise étrangère risque de change (la) monnaie unique
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What is Money?

cheques banknotes transactions credit money supply cash

The answer to this question seems straightforward enough. Most people would agree that coins and _____ are money, though they would not necessarily accept them from other countries. What about _____? While these are widely used, they are not always accepted as payment. That said, bank _____ (ie. deposits against which you can write a cheque) is much more important in the total money _____ than _____. What about I.O.U.s (*I owe you*), _____ cards and gold? Their acceptability varies greatly, depending on the _____ involved.

Find synonyms for the following words and expressions in the text below: '*sharp upturn*'
return valuable safeguard share

Keynes in criticism of the gold standard called the precious metal a "barbarous relic". But even now people in many parts of the world seek to keep some proportion of their assets in gold. Apart from its physical attractiveness and the fact that gold is not corrosive, it is often seen as a hedge against inflation. This was a function which it had in the 1970s in particular, and again more recently. In the intervening years – the mid-1980s until the mid-2000s – gold was generally seen as a poor investment because by definition it does not generate any income compared to shares and bonds. Since the mid-2000s there has been a strong rise in the price of gold.

M0 : is the stock of notes and coins in circulation (and possibly reserves held at the central bank)	
M1: M0 + the value of bank current accounts	
M2: M1 + some deposit or interest-bearing bank accounts	
M3: M2 + remaining, mostly very large, deposit accounts	
central bank	banque centrale
monetary policy	politique monétaire
short term interest rates	taux d'intérêt à court terme

The management of the short term interest rates at which central banks lend to national banking systems has today become the main instrument of monetary policy and to a large extent the key lever of macroeconomic policy. Responsibility for setting interest rates is generally in the hands of the central banks themselves, which are independent from direct political control. Such independence shields them from short-run political pressures which could lead to an excessively permissive monetary policy, and hence compromise the control of inflation.

Are the following sentences true or false?

- 1) Central banks target the money supply to control inflation.
- 2) They also act to manage long term interest rates.
- 3) Central banks accept politicians' advice in shaping monetary policy.