

## A Few Ideas about Money

Money is always on our minds, and we use it all the time. But do we really know what it is? Coins, notes, and electronic balances on our current and savings accounts are probably what most of us think of and use daily. And since Covid, we probably spend most of our money with direct debit or credit cards, or through bank transfers.

Money “[can't buy love](#)” as the Beatles sang, but no other object can be so easily converted into something else. A house, a car, a gold ring or painting have value. But exchanging them to acquire something else is not easy. They could be swapped, but otherwise need to be sold, and until they are sold their exact worth is unknown.

Maintaining the stable value of money is essential to its use and vital to meet the three core functions of money as: i) a means of exchange, ii) a unit of account and iii) a store of value. This is why cryptocurrencies like Bitcoin are not a form of money. As their value fluctuates constantly, they cannot be used to price goods and services and so cannot really be used to finance transactions. At best, cryptos may be speculative assets, with no intrinsic worth.

To protect the value of money, governments, on behalf of societies, establish and protect legal tender – the money used in a country. They do this by controlling the creation of money. First, coins and notes are designed to be difficult to counterfeit, and only the public authorities are allowed to produce them. Governments also impose a currency in a national economy by using it to collect taxes, to pay employees, and to buy goods and services.

The main source of money creation however comes from the banking system lending money to households and business. Every time a loan is made, for example to buy a home or a car, the borrower's bank opens an account with the money used for the purchase. This creates money. When the buyer then reimburses the loan on the account, money is destroyed. The authorities, usually the central bank, regulates this process: only firms with bank licences can manage client deposits. To get a licence, a future bank needs to have some capital, including money to be held in reserve with the central bank, and must respect banking laws (see, for example, [Bank of England information](#)). Central banks also influence credit creation through interest rates: normally the rate of interest which is paid on reserves at the central bank (and the rate at which the central bank may lend to banks for short periods of time). Increases and cuts in these interest rates respectively slow down or accelerate the creation of new money.

Managing the creation of credit and hence money however is not that easy. Historically, governments have always been tempted to create cash: for example, by diluting the gold in coins by adding other metals in coins, or by printing banknotes, or by asking central banks to credit central government accounts with “electronic money”.

### I. According to the text, are the following sentences true or false?

- a/ We use money all the time and have a clear idea of what it is. True/False
- b/ Money can be exchanged instantaneously into any kind of marketable good or service. True/False
- c/ The stability of money is important to its use. True/False
- d/ Various types of legal tender may be used in an economy. True/False
- e/ Most money used in an economy is created by commercial banks. True/False
- f/ Any firm can carry out banking activities like taking household deposits. True/False
- g/ The central bank has no possibility for influencing how much money commercial banks create. True/False
- h/ Higher interest rates should lead to banks lending less money and so less money creation. True/False
- i/ Controlling the growth of money and credit is easy. True/False
- j/ Governments have at times put pressure on central banks to create more money. True/False

### Find words in the text for the following definitions:

1/ money put aside for safety or for a project	6/ to make fake copies
2/ every day	7/ to pay back
3/ something which is exchanged for something else	8/ a payment card which takes money off your current account immediately
4/ central, main, principle	9/ wanting to do something
5/ to oscillate, to move around	10/ when a bank puts money in a clients account

**Answers:** I. a/ false, b/ true, c/ true, d/ false, e/ true, f/ false, g/ false, h/ true, i/ false, j/ true.

1/ savings, 2/ daily, 3/ swapped, 4/ core, 5/ to fluctuate, 6/ counterfeit, 7/ reimburse, 8/ direct debit card, 9/ to be tempted, 10/ to credit