University Center Abdelhafid Boussouf-Mila

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Lecture three: Forms of money

Addressed To firs Year Students-Semester 1

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Money is essential for facilitating trade, enabling the exchange of goods and services in economies. It comes in various forms, each with unique characteristics. Understanding these forms helps clarify how money functions in modern societies. Let's explore the main forms of money used throughout history and in the present day.

1. Commodity Money

Definition: Commodity money is a type of money that has intrinsic value, meaning the item used as money is valuable in and of itself, aside from its role as currency.

Examples:

Gold: Historically, gold has been a widely accepted form of commodity money due to its rarity, divisibility, and ease of transport.

Silver: Like gold, silver has been used in coins and bars for trade and as a store of value.

Cattle or Livestock: In ancient economies, animals were often traded as a form of currency.

Grains or Salt: In some societies, products like grains or salt were used as money.

Key Characteristics:

Intrinsic value: The commodity itself holds value.

Durability: Commodity money lasts longer and doesn't degrade easily.

Divisibility: It can be divided into smaller, measurable units.

2. Fiat Money

Definition: Fiat money has no intrinsic value but derives its value from the trust and confidence that people have in the government or authority that issues it. This is the most common form of money today.

Examples:

Paper money: Banknotes issued by governments.

Coins: Metal coins minted by governments for circulation.

Key Characteristics:

No intrinsic value: The paper or metal has little to no value outside of being used as money.

Government backing: Its value is backed by the government that issues it.

Legal tender: It is officially recognized as a medium of exchange by the government.

Advantages:

Governments can control supply (inflation or deflation management).

Easier to print and manage than commodity money.

3. Bank Money (Depository Money)

Definition: Bank money refers to money that is held in accounts and can be accessed through checks, debit cards, or digital transactions. It doesn't exist physically but can be used for payments through banking systems.

Examples:

Bank deposits: Money in savings and checking accounts.

Checks: Paper instructions for transferring money from one account to another.

Electronic transfers: Digital transactions such as wire transfers or online banking payments.

Key Characteristics:

Intangible: It exists only as a digital record or written instruction.

Easily transferable: Transactions can occur instantly through banking networks.

Money supply management: Banks can create money through lending.

4. Electronic Money (E-money)

Definition: E-money is a digital form of money that can be stored and transferred electronically. It includes both bank money and new forms of digital currency.

Examples:

Digital wallets: Services like PayPal, Venmo, and Apple Pay.

Cryptocurrency: Digital currencies like Bitcoin, Ethereum, and others.

P**repaid cards:** Cards that store a fixed amount of value for online or in-store transactions.

Key Characteristics:

Completely digital: No physical form; it exists only in electronic form.

Fast and efficient: Transactions can be completed in real-time, making it convenient for users.

Decentralization: Cryptocurrencies are often decentralized, meaning no central authority controls them.

5. Representative Money

Definition: Representative money represents a claim on a commodity (such as gold or silver) that can be redeemed on demand. While the paper itself doesn't have intrinsic value, it can be exchanged for a tangible asset.

Examples:

Gold certificates: Banknotes that could be exchanged for gold.

Silver certificates: Similar to gold certificates, but they were backed by silver.

Key Characteristics:

Backed by a commodity: The paper or token represents something of actual value (e.g., gold or silver).

Exchangeable: Can be redeemed for the commodity it represents.

Declined in use: As fiat money gained prominence, representative money became less common.

6. Virtual Currencies and Cryptocurrencies

Definition: Cryptocurrencies are a form of digital currency that operates on decentralized networks using blockchain technology. Unlike fiat money, they are not controlled by governments.

Examples:

Bitcoin: The first and most widely known cryptocurrency.

Ethereum: A cryptocurrency with smart contract capabilities.

Stablecoins: Cryptocurrencies pegged to a stable asset, such as the US dollar.Key **Characteristics:**

Decentralized: Operates without a central authority, like a government or central bank.

Secure: Transactions are secured through cryptography and recorded on a blockchain.

Global reach: Can be used across borders, making it ideal for international transactions.

Advantages:

- Low transaction costs.
- No need for intermediaries (banks or governments).
- Transparency and security via blockchain.

Bank Notes (Paper Money)

Definition: Banknotes are paper money issued by a central authority (such as a national government or central bank) and are backed by the government's promise to honor them as legal tender for transactions.

Examples:

Dollar Bills: The U.S. dollar notes (e.g., $1, $5, $10) are the most recognized form of paper money globally.

Pound Sterling: Banknotes issued by the Bank of England.

Euro: Banknotes used across the Eurozone.

The Algerian Dinar (currency code: DZD) is the official currency of Algeria. Here's a detailed overview:

1. Basic Information

Currency Name: Algerian Dinar (DZD)

Currency Symbol: د.ج (Arabic: د.ج) or sometimes "DA"

Subdivision: 1 dinar is divided into 100 centimes.

Central Bank: Bank of Algeria (Banque d'Algérie)

ISO Code: DZD

Key Characteristics:

Legal tender: A government declares it must be accepted for payment of debts.

Symbol of trust: Their value depends on the confidence that people have in the issuing government's stability and solvency.

Easy to carry: Paper money is more convenient than commodity money for everyday transactions.

The Future of Money

The forms of money discussed above demonstrate the evolution of human economies, from bartering to modern-day cryptocurrencies. Each form of money serves a different purpose and reflects the needs and technological advances of its time. In the future, we may see further innovations in the way money is created, used, and exchanged.

Understanding these forms of money provides insight into the complex systems that drive the global economy and the ways in which money facilitates trade, savings, and wealth creation.

Terminology

- Commodity Money - النقد السلعي
- Fiat Money - النقد الورقي
- Bank Money - النقد البنكي
- Electronic Money (E-money) - النقد الإلكتروني
- Representative Money - النقد الممثل
- Cryptocurrency - العملات الرقمية
- Token Money - النقد الرمزي
- Electronic Funds Transfer (EFT) - التحويلات المالية الإلكترونية
- Local Currencies - العملات المحلية
- Precious Metals - المعادن الثمينة

- Central Bank - البنك المركزي
- Special Drawing Rights (SDRs) - حقوق السحب الخاصة (الاحتياطات النقدية الخاصة)
- Barter System - نظام المقايضة
- Inflation - التضخم
- Monetary Policy - السياسة النقدية
- Legal Tender - العملة القانونية
- Cryptocurrency - العملة المشفرة
- Fintech (Financial Technology) - التكنولوجيا المالية