

Feuer Nursing Review Pharmacology Lecture Handout

Top Questions What is money? Money is a commodity accepted by general consent as a medium of economic exchange. It is the medium in which prices and values are expressed. It circulates from person to person and country to country, facilitating trade, and it is the principal measure of wealth. When was paper money first used? The first use of paper money occurred in China more than 1,000 years ago. By the late 18th and early 19th centuries, paper money and banknotes had spread to many other parts of the world. When were coins first used as money? The use of metal for money can be traced back to Babylon, prior to 2000 BCE. Standardization and certification in the form of coinage did not occur except perhaps in isolated instances until the 7th century BCE. Historians generally ascribe the first use of coined money to Croesus, king of Lydia, a state in Anatolia. Which currency is used the most in international trade? The U.S. dollar is the most widely used currency in international trade, even in trade between countries other than the United States. It is the unit in which countries often express their exchange rate. Countries maintain their "official" exchange rates by buying and selling U.S. dollars and hold dollars as their primary reserve currency.

Summary

Read a brief summary of this topic

money, a commodity accepted by general consent as a medium of economic exchange. It is the medium in which prices and values are expressed; as currency, it circulates anonymously from person to person and country to country, thus facilitating trade, and it is the principal measure of wealth. The subject of money has fascinated people from the time of Aristotle to the present day. The piece of paper labeled 1 dollar, 10 euros, 100 yuan, or 1,000 yen is little different, as paper, from a piece of the same size torn from a newspaper or magazine, yet it will enable its bearer to command some measure of food, drink, clothing, and the remaining goods of life while the other is fit only to light the fire. Whence the difference? The easy answer, and the right one, is that modern money is a social contrivance. People accept money as such because they know that others will. This common knowledge makes the pieces of paper valuable because everyone thinks they are, and everyone thinks they are because in his or her experience money has always been accepted in exchange for valuable goods, assets, or services. At bottom money is, then, a social convention, but a convention of uncommon strength that people will abide by even under extreme provocation. The strength of the convention is, of course, what enables governments to profit by inflating (increasing the quantity of) the currency. But it is not indestructible. When great increases occur in the quantity of these pieces of paper—as they have during and after wars—money may be seen to be, after all, no more than pieces of paper. If the social arrangement that sustains money as a medium of exchange breaks down, people will then seek substitutes—like the cigarettes and cognac that for a time served as the medium of exchange in Germany after World War II. New money may substitute for old under less extreme conditions. In many countries with a history of high inflation, such as Argentina, Israel, or Russia, prices may be quoted in a different currency, such as the U.S. dollar, because the dollar has more stable

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value than the local currency. Furthermore, the country's residents accept the dollar as a medium of exchange because it is well-known and offers more stable purchasing power than local money.

Functions of money The basic function of money is to enable buying to be separated from selling, thus permitting trade to take place without the so-called double coincidence of barter. In principle, credit could perform this function, but, before extending credit, the seller would want to know about the prospects of repayment. That requires much more information about the buyer and imposes costs of information and verification that the use of money avoids. If a person has something to sell and wants something else in return, the use of money avoids the need to search for someone able and willing to make the desired exchange of items. The person can sell the surplus item for general purchasing power—that is, "money"—to anyone who wants to buy it and then use the proceeds to buy the desired item from anyone who wants to sell it. Britannica Quiz What's On Your Money Quiz The importance of this function of money is dramatically illustrated by the experience of Germany just after World War II, when paper money was rendered largely useless because of price controls that were enforced effectively by the American, French, and British armies of occupation. Money rapidly lost its value. People were unwilling to exchange real goods for Germany's depreciating currency. They resorted to barter or to other inefficient money substitutes (such as cigarettes). Price controls reduced incentives to produce. The country's economic output fell by half. Later the German "economic miracle" that took root just after 1948 reflected, in part, a currency reform instituted by the occupation authorities that replaced depreciating money with money of stable value. At the same time, the reform eliminated all price controls, thereby permitting a money economy to replace a barter economy. These examples have shown the "medium of exchange" function of money. Separation of the act of sale from the act of purchase requires the existence of something that will be generally accepted in payment. But there must also be something that can serve as a temporary store of purchasing power, in which the seller holds the proceeds in the interim between the sale and the subsequent purchase or from which the buyer can extract the general purchasing power with which to pay for what is bought. This is called the "asset" function of money. Get a Britannica Premium subscription and gain access to exclusive content. [Subscribe Now](#)

Reference

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