

Functions and Characteristics of Money

Lesson Description

In this lesson, students view a film segment on the characteristics and functions of money from *The Federal Reserve and You*. Based on the information they learn in the film segment, they work in small groups to analyze a series of scenarios and determine which characteristic or function of money is being described. In the discussion that follows, the characteristics and functions of money are reviewed.

Grade Level

6–12

Lesson Author

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Standards and Benchmarks

See page 5.

Concepts

Characteristics of money
Functions of money
Medium of exchange
Money
Store of value
Unit of account

Time Required

45 minutes

Materials

- Film segment: “What Is Money?” from Chapter 3: Money and Banking 101 of *The Federal Reserve and You*. The film is available streaming in 720p at philadelphiafed.org/the-federal-reserve-and-you. You may also order a standard definition DVD of the film at the same address.
- Visual 1: Money
- Handout 1: Functions and Characteristics of Money Cards, one copy for each group of two to three students printed on card stock and cut apart.
- Handout 2: Assessment, one copy for each student

Objectives

Students will:

1. Define money as anything widely accepted as final payment for goods and services.
2. Explain how money acts as a medium of exchange, unit of account, and store of value.
3. Evaluate an item’s usefulness as money based on the characteristics of “good” money.

Preparation

- Prepare the activity cards from *Handout 1: Functions and Characteristics of Money Cards*. Produce one set of cards from each copy of the handout to create a complete deck of 18 cards for each group of two to three students.

Procedures

1. On the board, create a table with two columns. Write “Functions of Money” at the top of the first column, and write “Characteristics of Money” at the top of the second column.
2. Ask the students what they believe are the functions of money. Record each of their suggestions in the first column of the table on the board.
3. Ask the students what characteristics they believe money has to have in order to work well. Record each of their suggestions in the second column of the table on the board. Retain this table on the board for use later in the lesson.

4. Explain to the students that they are going to watch a film segment from *The Federal Reserve and You*. In the film clip, they will get to see what some other students think about the **characteristics and functions of money**. They will also learn about the three functions and six characteristics of money identified by economists. Emphasize to the students that they should listen carefully to the information shared in the short video clip.
5. Play the “What Is Money?” film segment from Chapter 3: Money and Banking 101 of *The Federal Reserve and You*.
6. Discuss the following:
 - a. What are the functions of money? (*Medium of exchange, store of value, and unit of account*). **Money** is anything widely accepted as final payment for goods and services. Display the definition of money on *Visual 1: Money*.
 - b. What six characteristics does something need to exhibit in order to work well as money? (*Divisible, portable, acceptable, scarce, durable, and stable*)
 - c. What gives money value? (*People are willing to accept it as final payment for goods and services.*)
 - d. Is U.S. currency backed by either gold or silver? (*No*)
 - e. Since U.S. currency isn’t backed by gold or silver, what is it backed by? (*People’s trust that it is worth something*)
 - f. Who’s largely responsible for ensuring that people continue to trust that our currency is valuable? (*The Federal Reserve*)
7. Display the functions of money section of *Visual 1*. Review the following:
 - Money acts as a go-between to make it easier to buy things. Sellers agree to accept it in exchange for a good or service. In this way, money functions as a **medium of exchange**.
 - Money encourages specialization by decreasing the costs (in both time and effort) of trade.
 - When people hold money in their wallet, they are using money to maintain value until they want to exchange that value for a good or service. As a **store of value**, money makes it easier for people to save and defer consumption until the future.
 - Money serves as a way to measure and compare the value of goods and services in relation to one another. When comparing prices, individuals can determine if one good is a better buy than another. Money also allows people to keep accurate financial records. As a **unit of account**, money is used to compare the market value of different goods and services.
 - Display the characteristics of money section of *Visual 1*. In order for something to function well as money, it must possess six characteristics. Explain each of the characteristics of money as follows:
 - Divisible — Money must be easily divided into small parts so that people can purchase goods and services at any price.
 - Portable — Money must be easy to carry.
 - Acceptable — Money must be widely accepted as a medium of exchange.
 - Scarce — Money must be relatively scarce and hard for people to obtain.
 - Durable — Money must be able to withstand the wear and tear of many people using it.
 - Stable — Money’s value must remain relatively constant over long periods of time.
8. Divide the students into groups of two or three. Distribute one deck of cards from *Handout 1* to each group of students.

9. Explain to the students that they are to work in their groups and read each scenario and associated question card from the deck. They are then to match that scenario and question card with the function or characteristic of money card from the deck that best fits the scenario and question. They are to organize the matched pairs on a desk so that they can easily share their matches with others during the classroom discussion. Give the students five to 10 minutes to complete the activity.
10. Review the answers to the activity by discussing the following scenarios. Instruct the groups to correct any errors they had in their matches as you go through each scenario.
- 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? (*Medium of exchange*)
 - 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? (*Unit of account*)
 - 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? (*Store of value*)
 - 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? (*Divisible*)
 - 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? (*Portable*)
- 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? (*Acceptable*)
 - 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? (*Scarce*)
 - 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? (*Durable*)
 - 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? (*Stable*)
11. Return to the table created on the board. Ask the students which of the functions they identified before they saw the film clip are related to the actual functions of money: medium of exchange, store of value, and unit of account. Circle those functions.

12. Ask the students which of the characteristics they identified before they saw the film clip are related to the actual characteristics of money: acceptable, divisible, durable, portable, scarce, and stable. Circle those characteristics.

Closure

13. Review important content from the lesson by discussing the following:
- What is money? (*Anything widely accepted as final payment for goods and services*)
 - What are the functions of money? (*Medium of exchange, unit of account, and store of value*)
 - What are the characteristics of money? (*Acceptable, divisible, durable, portable, scarce, and stable*)
 - Explain that during different periods of history, in different parts of the world, salt, paper money, and livestock have all been used as money.
 - Which of these forms of money is most portable? (*Paper money*) Why? (*Large quantities of salt can be very heavy to transport. Livestock can be very cumbersome to transport as well. Paper money is the lightest and the easiest to carry around.*)
 - What makes paper money divisible in today's economy? (*We have Federal Reserve notes of multiple denominations, and we also have coins to make money divisible.*)
 - Which of the three historic forms of money listed here is the most durable? (*Paper money*) Why? (*Salt washes away if it gets wet. Livestock doesn't live forever and needs to be fed and cared for. Paper money can last a long time.*)
 - Why aren't salt and livestock relatively scarce? (*Salt can be mined from the earth or harvested through evaporation from sea water. Livestock can reproduce.*) Paper money may or may not be relatively scarce, depending on how it is managed by the govern-

ment body responsible for issuing it. However, in the United States, paper money is relatively scarce thanks to the Federal Reserve's monetary policy.

- Which of the three historic forms of money listed here is the only one widely accepted in our economy? (*Paper money*)
- Is our money relatively stable in value? (*Answers will vary.*) Our money is relatively stable in value. How do you know? (*Inflation is low in our economy; therefore, our money is relatively stable in value.*)

Assessment

14. Distribute a copy of *Handout 2: Assessment* to each student.

Suggested answers:

- 1.a. *Money is defined as anything widely accepted as final payment for goods and services. Goodwin explains that an item, whatever it may be, will work as money as long as everyone agrees that it is money. In other words, Goodwin is explaining that money has to be widely accepted in order to work. Goodwin lists a number of things that can serve as money, but in the end, they will work only if everyone believes that those things actually represent value.*
- 1.b. *Dried peas would likely be a very bad commodity for any civilization to choose as money. In order for money to function well as a medium of exchange, store of value, or unit of account, it must possess six characteristics: divisible, portable, acceptable, scarce, durable, and stable in value. While dried peas could easily be divided and carried around like coins, they would likely not remain relatively scarce once they were declared money. Peas can be easily grown and dried. We can easily expect that the number of peas grown in the economy would significantly increase after dried peas were declared money. With the number of dried peas in the economy significantly increasing, the value of each dried pea would also decline significantly. Businesses and individuals in the economy would be able to buy fewer goods and services with each dried pea. Therefore, dried peas would not remain stable in*

value. Finally, dried peas are not very durable. If dried peas get wet they will rot. Dried peas left in the pockets of your jeans would likely be damaged or even destroyed on their way through a washing machine. Dried peas can also be easily crushed under a shoe if dropped on the ground. And dried peas, if exchanged as often as we exchange \$1 bills, would likely disintegrate from all the handling. In all, given how poorly dried peas satisfy the characteristics of money, it is unlikely that dried peas would function well as money.

2. *In order for money to function well as a medium of exchange, store of value, or unit of account, it must possess six characteristics: divisible, portable, acceptable, scarce, durable, and stable in value. Federal Reserve notes are easily divided into smaller denominations using either smaller Federal Reserve notes or coins. Federal Reserve notes are easily carried and are widely accepted, even in many foreign countries. Federal Reserve notes are durable. Even Federal Reserve notes left in the pocket of a pair jeans can easily survive a cycle in the washing machine. Federal Reserve notes are relatively scarce and stable in value. Since Federal Reserve notes meet the six characteristics of money, businesses and individuals across the country and in many places in the rest of the world use Federal Reserve notes as a medium of exchange to purchase goods and services. Federal Reserve notes can be saved in wallets, at home, or in banks and work as a strong store of value that is respected the world over. Finally, the U.S. dollar, which is used in the United States and in many parts of the world to denote the prices of millions of goods and services, is an excellent unit of account.*

Standards and Benchmarks

NATIONAL STANDARDS IN ECONOMICS

Standard 11: Students will understand that money makes it easier to trade, borrow, save, invest, and compare the value of goods and services.

- Benchmark 1, Grade 4: Money is anything widely accepted as final payment for goods and services.
- Benchmark 1, Grade 8: As a store of value, money makes it easier for people to save and defer consumption until the future.
- Benchmark 2, Grade 8: As a unit of account, money is used to compare the market value of different goods and services.

COMMON CORE STATE STANDARDS

English Language Arts & Literacy Standards in History/Social Studies and Technical Subjects, Grades 6–12

Reading Standards for Literacy in History/Social Studies 6–12

- Grades 6–8, Craft and Structure (RH.6–8.4): Determine the meaning of words and phrases as they are used in a text, including vocabulary specific to domains related to history/social studies.
- Grades 6–8, Range of Reading and Level of Text Complexity (RH.6–8.10): By the end of grade 8, read and comprehend history/social studies texts in the grades 6–8 text complexity band independently and proficiently.
- Grades 11–12, Key Ideas and Details (RH.11–12.1): Cite specific textual evidence to support analysis of primary and secondary sources, connecting insights gained from specific details to an understanding of the text as a whole.
- Grades 11–12, Key Ideas and Details (RH.11–12.2): Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.

Writing Standards for Literacy in History/Social Studies, Science, and Technical Subjects 6–12

- Grades 6–8, Text Types and Purposes (WHST.6–8.1): 1. Write arguments focused on discipline-specific content. (a) Introduce claim(s) about a topic or issue, acknowledge and distinguish the claim(s) from alternate or opposing claims, and organize the reasons and evidence logically. (b) Support claim(s) with logical reasoning and relevant, accurate data and evidence that demonstrate an understanding of the topic or text, using credible sources. (c) Use words, phrases, and clauses to create cohesion and clarify the relationships among claim(s), counterclaims, reasons, and evidence. (d) Establish and maintain a formal style. (e) Provide a concluding statement or section that follows from and supports the argument presented.
- Grades 9–10 and 11–12, Production and Distribution of Writing (WHST.9–10.4 and WHST.11–12.4): Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.
- Grades 6–8, 9–10, and 11–12: Research to Build and Present Knowledge (WHST.6–8.9, WHST.9–10.9, and WHST.11–12.9): Draw evidence from informational texts to support analysis, reflection, and research.

Visual 1: Money

Money is anything widely accepted as payment for final goods and services.

Functions of Money:

- Medium of Exchange
- Store of Value
- Unit of Account

Characteristics of Money:

- Divisible
- Portable
- Acceptable
- Scarce
- Durable
- Stable

Handout 1: Functions and Characteristics of Money Cards

<p>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?</p>	<p>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?</p>
<p>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?</p>	<p>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?</p>
<p>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?</p>	<p>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?</p>
<p>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?</p>	<p>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?</p>
<p>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?</p>	<p><i>Intentionally Left Blank Please Discard</i></p>

Handout 1 (continued)

Store of Value	Unit of Account
Medium of Exchange	Divisible
Acceptable	Scarce
Stable	Durable
Portable	<i>Intentionally Left Blank Please Discard</i>

Handout 2: Assessment

1. Read the following quotation from Jason Goodwin’s book *Greenback* and answer the questions that follow.

“Money is a belief that has to be shared with other people... Otherwise money’s useless: you can’t eat it or wear it, buy love with it (though you may broaden your chances), and you don’t get to take it with you when you die. Money can be anything you like — gold or silver, peas or paper, tiny shells or massive stones, or nothing at all but surf on the electronic highway. But everyone must agree on what it is: we accept money because we believe others in turn will accept it too. It works because it works.”*

- a. Explain how Goodwin’s writing supports the definition of money.

- b. Write a persuasive argument for why a civilization should not choose dried peas as its money.

2. Federal Reserve notes have served as paper money in our economy since they were first issued by the Federal Reserve Banks in 1914. Explain how Federal Reserve notes meet the six characteristics of good money and serve the three functions of money.

* Goodwin, Jason. *Greenback: The Almighty Dollar and the Invention of Money*. New York: Henry Holt and Co., 2003, pp. 4-5.