

Use Chapter 10 section 1 to help complete the following questions.

Define money –

Explain how money has value.

WHAT MAKES MONEY IMPORTANT?

List and define the three functions of money. Then provide an example of how dollars fulfill that function.

1. Function

Definition

Example

2. Function

Definition

Example

3. Function

Definition

Example

OVERVIEW OF MONEY AND INFLATION

Many people think economics is the study of money. In fact, economics is much more than this; however, money is an important tool of the exchange process and helps the economy run. Money makes it easier and more efficient for people to transfer ownership of goods and services.

The supply of money in the economy is a very important macroeconomic variable. The money supply is the total amount of money in circulation within the country at some time period. When the total amount of money in the economy changes or when people's incomes change, behavior in the marketplace changes.

The basic cause of inflation is an increase in the rate of growth of the money supply relative to the rate of growth of goods and services.

The Federal Reserve System, the nation's central bank, has the responsibility of managing the U.S. money supply.

INFLATION, THE FED AND MONETARY POLICY

Inflation: a sustained increase in the average price level of all the goods and services produced in the economy. In market economies, some prices are always changing because of supply and demand.

Federal Reserve: the central banking system in the United States, often called the Fed. Among other things, the Fed has the job of conducting monetary policy to control the money supply.

Monetary Policy: when a nation's central bank changes the money supply to promote stable prices, full employment and economic growth. Monetary policy tries to address problems of inflation and unemployment.

Step #3: Develop your own Currency

Directions: Draw / create an item that has the greatest value to you (it can be something you own currently or is a dream). Example: Million dollar bill, Nike symbol (own billion dollar company), etc.

