**Money**

The word ‘Money’ is derived from the Latin word ‘Moneta’ which was the surname of Roman Goddess of Juno. Money was coined in her Temple at Rome Money is define as anything that is generally acceptable as a means of exchange and that at the same time act as a measure and as a store of value. Money has three important functions i.e medium of exchange, a standard value and a store value.

**What is money?**

Money is simply a medium of exchange that can be used to purchase goods and services. It is also defined by its ability to act as a store of value.

Today, money and currencies are synonymous with each other, but coins and notes are just a physical representation of the concept of money. Throughout history, there has been a range of different mediums of exchange, including commodities.

**Different 4 types of money**

Broadly, there are four accepted types of money used by economists today:

1. Fiat money – the notes and coins backed by a government
2. Commodity money – a good that has an agreed value
3. Fiduciary money – money that takes its value from a trust or promise of payment
4. Commercial bank money – credit and loans used in the banking system

**What is fiat money?**

[Fiat money](https://www.forex.com/en/news-and-analysis/what-are-fiat-currencies/) is a currency that is not backed by a commodity or physical good, but rather the strength of the issuing body. Its value comes from market supply and demand, which usually fluctuates in line with the perceived health of the economy.

Most governments use fiat money systems. This allows them to create economic policies that – alongside central banks – influence the money supply.

Fiat money underpins most modern monetary systems, which is why the terms ‘currencies’ and ‘money’ are used interchangeably. Most of the other systems derive their value from a comparison with fiat currency.

**Why is it called fiat money?**

Fiat money is named after the Latin word fiat, which translates to ‘determined by authority’. That’s because the value of the currencies is set by government bodies, not by their relation to another asset.

Fiat money has a floating value, which is determined by the strength of one currency against another in the open market. Fiat money is traded in what’s known as the foreign exchange market, or forex market.

**Fiat money example**

Fiat money is any global currency that is recognised as legal tender by its government. Examples include the Great British pound, United States dollar, euro, Australian dollar, Japanese yen and Chinese yuan.

When fiat money is traded against each other, they’re listed in pairs. So, the pound against the US dollar is [GBP/USD](https://www.forex.com/en/forex-trading/gbp-usd/), and the US dollar against the yen is [USD/JPY](https://www.forex.com/en/forex-trading/usd-jpy/).

**What is commodity money?**

[Commodity](https://www.forex.com/en/commodity-trading/) money is a physical asset that has an intrinsic value. This system is associated with bartering, where there is no standardised or agreed-upon medium of exchange.

Commodity money is widely used to refer to precious metals, such as gold, which historically backed most global currencies. But in some societies, grains and coffee have also been used.

**Commodity money example**

A common example of commodity money is the gold standard, which was a monetary system that pegged the value of a country’s currency to a specific amount of gold.

It was originally set out to stabilise the prices of global currencies because most paper money was backed by gold held in bank reserves.

The United Kingdom adopted the gold standard in 1812, while the US, Germany and France followed suit in the 1870s.

However, the gold standard reduced the ability of governments and financial institutions to respond to market events and economic changes, which is ultimately what caused the gold standard to be abandoned during World War I.

**What is fiduciary money?**

Fiduciary money is a money substitute that is often a written statement of debt or intent of payment. It is essentially a promise of money at a later date, which is backed by nothing more than trust between the two parties in a transaction.

There are risks involved in a fiduciary money system of exchange, as the supply of money and the promises made may not align. So, if too many individuals using fiduciary money attempt to convert their statements at any one time, it can create a run on the fiat system that underpins the exchanges.

**Example of fiduciary money**

Examples of fiduciary money include paper cheques, banknotes, token coins or electronic credit.

If you were to receive a cheque for £1,000, the paper itself is worthless, it only has value once it has been deposited into an account and converted into fiat money.

**What is commercial bank money?**

Commercial bank money represents the loans generated by financial institutions. When a customer deposits funds in a bank account, it is loaned out to other customers, which earns the original depositor interest.

There is always a reserve requirement, which is the portion of client funds that a bank cannot lend out to other customers.

Commercial bank money is a vital part of any financial system, as it creates liquidity for the buying and selling of other forms of asset. For example, banks lend out to consumers in the form of mortgages, business loans and personal loans.

**Commercial bank money example**

Let’s say customer A puts £10,000 into her current account with a high street bank. The bank has a 10% reserve ratio, which means £1,000 must be left in the account at all times. The other £9,000 is lent out to customer B, who needed a loan to buy a car.

Customer B will need to repay the loan and will be charged interest for the time it takes to repay the funds. This interest (or a portion of it) is given to customer A, increasing the total number of funds in their account.

Discuss personal finances

When it comes to personal finances, there are several topics that individuals should discuss to manage their finances effectively. These topics include income, spending, saving, investing, and protection. It is essential to create a budget or financial plan that outlines an individual's income, expenses, and savings. Good spending habits are critical for good personal finance management, and managing expenses is just as important as generating income. It is also important to discuss financial goals, such as retirement planning, buying a home, or saving for children's education. Other important topics to discuss include debts and expenses, savings goals, credit history, and views on shared spending and financial mistakes of the past. Financial planning discussions start with good questions, such as what were finances like in your home growing up, how did your parents handle money, and how much do you have saved. By discussing these topics, individuals can better understand their financial situation and work towards achieving their financial goals.

**Demonstratives: this, that, these, those**

Demonstratives in English are words used to indicate or identify specific objects or groups of objects. They help provide clarity and context in communication by showing the proximity or distance of the referred objects. The primary demonstrative pronouns in English are "this," "that," "these," and "those."

1. **This**: "This" is used to refer to a singular object or an object that is close to the speaker. It indicates nearness in space or time.
	* Example: "This book is fascinating." (Referring to a book the speaker is holding.)
2. **That**: "That" is used for singular objects or objects that are farther away from the speaker. It indicates more distance in space or time.
	* Example: "That restaurant over there is excellent." (Referring to a restaurant in the distance.)
3. **These**: "These" is the plural form of "this" and is used to refer to multiple objects that are nearby.
	* Example: "These shoes are comfortable." (Referring to several pairs of shoes nearby.)
4. **Those**: "Those" is the plural form of "that" and is used for multiple objects that are not close to the speaker.
	* Example: "Those cars are fast." (Referring to cars in the distance.)

**Additional Insights:**

* **Determiners (Demonstrative Adjectives):** Demonstratives can also function as determiners when used before nouns to specify or emphasize particular objects.
	+ **Example:** "This car is very fast." (Determiner + Noun)
* **Context and Clarity:** The choice of demonstrative pronoun is crucial for providing context and clarity in communication. Consider the proximity or distance of the objects in question.
* **Gestures and Pointing:** Demonstratives are often reinforced with gestures or pointing to emphasize the intended objects, fostering better understanding.

**Practical Exercise**

Identify the demonstrative pronoun/adjective in each sentence.

* I remember those days when we used to play in the park.
* This lecture is so detailed.
* I just bought this book, and I can't wait to read it.
* This bug must be fixed .
* I found these interesting articles while researching.
* These figures are mistaken
* I met that professor at the conference last year.