

How money differs from other goods in the market

Money: Currency plus bank transaction deposits

First, money is far from the root of all evil—that could only apply to the love of, or obsession to amass, money. Money is beneficial because (free) trade is a win-win activity (as perceived by each party ex-ante). Trade promotes peace for this reason. Hence the dictum: 'If goods don't cross borders, armies will.'

We know that money acts as barter good for all other goods in the market. We know that money liberates (exchange of) goods in the market from the inconvenience of direct barter. It solves the problem of the double coincidence of wants that is necessary under barter for one to find a buyer of one's goods or services.

Second, we know that it provides a means of accounting where debts, financial assets, valuations of commodities, and exchange of goods and services, can be reduced to a single measure.

Third, we know that money is not consumed or exterminated as are goods and services to one degree or another. Money is not desired as a direct means of satisfying ends or needs. It is not used up or consumed.

Fourth, regardless of the supply or number of units of an established money, functionally its utility to an economy is invariable. A similar country that has double the money units of another country would have roughly twice the price level, but experience no functional difference.

Fifth, if a country with a stable economy is in transition to a state of greater or lesser supply of money there are consequences due to the disruption of its use in calculation, and due to distributional disparities, as well as due to location and due to individual differences in income, wealth and asset disposition which includes differences in disposition over time.

Sixth, money is demanded for transactions, speculative, and store of value purposes. These, however are all subsumed under its use as a means of exchange. These demands can be separate, especially in hyperinflation when the transactions demand increases, and the other demands decrease.

Seventh, the price of money is what it can be exchanged for, its purchasing power. It is thus measured best by the general price level, though inversely.

Eighth,, in using the term 'demand' we mean a schedule or demand curve, that may have a variety of quantities demanded at different intersections of the supply and demand for money. If supply is fixed (inelastic), increased demand (a shift out in the demand curve) can result in only a rise in its purchasing power (i.e. generally a fall in prices).

Ninth, money is a stock, not a flow. When the timing of income flows are matched to expenditure needs more efficiently, and or clearing-house techniques improve, such as with credit cards, the demand for money balances is reduced. Confidence in near monies and other liquid assets can reduce this demand.

Tenth, the demand for money affects the price level. Reduced desire to hold money raises prices and hence reduces the real money supply but not the number of units of money balances. The number of units is the monetary base controlled by the monetary authority in contemporary monetary regimes.

Eleventh, the price of present money is not the interest rate. Interest balances the exchange of present for future money, it could be seen as the rental price of money.