

EconEdLink: How Does Money Function?

Medium of Exchange



Money serves as a way for people to get goods and services they do not produce, without the difficulties of using a system of barter. It makes exchanges simpler and faster. When money is used in this way, this function is called a “medium of exchange.” You have probably use money as a medium of exchange for a long time – to buy the things you want.

This may be the hardest function of money to understand. If you think about all the goods and services that are available, how do you compare them? How many eggs equal a chicken? Or a taco? Or a music CD? So we use money as a “common denominator” and value things in terms of one dollar or portion of a dollar. A taco may be \$.50 and a hot dog may be \$1.00 – it takes twice as much to purchase a hot dog.

Unit of Account



Store of Value



By using money you can “store” the value of the goods and services you produce and spend those dollars on other items. This special function of money also means you can save the value of your work you do today, and convert that value to purchasing power at another time. For example – you may work all summer mowing lawns, and in the fall use the money you worked for to buy sports equipment or new school clothing.