

Money: Commodity & Fiat



When we think of money today, we think of bills and coins, but money is really anything generally accepted in exchange for goods and services. Throughout history, money has come in many different forms. Most early money systems were based upon a commodity, or valuable good. Commodities are basic goods used by almost everyone. A *commodity money* system is based upon goods that would have value even if they were not being used as money.

Long ago, people in the U.S. used commodity goods such as salt and rice as money. Because these items weren't always easy to carry and could go bad after a while, we eventually changed to using coins, made of precious metals. These coins were still considered a commodity system because the value of the metals used to make the coins were equal to the value of the coins. Being able to assign values to the coins, based upon the size and weight of the metal, made it easier for people to compare the value of the coins versus the value of goods and services.

Over time, people stopped using valuable metals for coins due to the high cost of the metals. Instead, we shifted to using the paper and non-precious metal money system that we use today. In this money system, each coin and bill represents a value that everyone agrees upon. A \$100 bill is really just a rectangular sized piece of special paper. The paper itself is not worth \$100, but the bill has a value of \$100 because our government says it does. This type of money system is called *fiat money*.

Fiat money is a currency that a government declares the legal form of money in the country. The currency itself, however, has no real value other than the government's backing and the trust people place in it. Fiat money is widely accepted as a form of payment and there is a common agreement to use that currency. Most countries today use a fiat money system.



Think and Write about it...

Think about the coin and bill currency system we use today. Given all of the electronic ways people can pay for the things they want (debit cards, credit cards, checks, apple pay, etc.), are coins and bills still necessary? Why or why not?

Sources:

<https://www.forbes.com/sites/naeemaslam/2018/06/08/is-the-end-looming-for-fiat-money/#9b56cde70781>

<https://www.investopedia.com/terms/f/fiatmoney.asp>