

In Money We Trust

Have you ever wondered why a twenty-dollar bill is worth \$20? The paper the bill is printed on is not worth \$20, so why is the bill worth \$20? The answer may surprise you.

Our money has value because people believe it does. That little green piece of paper with numbers and pictures is useless unless everyone around you believes it has value. Workers feel comfortable accepting money in exchange for the work they perform because they know that they can take that money to the market to buy the food and clothing they need.



It wasn't always like this. The early coins were made of precious metals like gold and silver. These coins had value based upon the value of the metal that they were made from. A coin owner could melt the coin down and use the metal for some other purpose. Today, the coins and bills we use have no real value on their own. We call this type of money Fiat money. The word *fiat* comes from the Latin word *facere* meaning to make or become. Fiat money is money that has no natural value, but rather its value comes from the people who believe it has value.

So why do people believe that twenty-dollar paper bill is worth \$20, but a sheet of notebook paper is not? Money is a good, like a book, a bike, or a toothbrush. It has value because it is scarce, and people want it. It is scarce because there is not enough of it to give everyone all they want. People want it to get the goods and services they want and need. As long as money remains scarce and people continue to want it, it will hold its value.

Our money system works on the belief of its people; if enough people believe in the value of money, the system will work. In the United States, the federal government helps the people to trust in the value of money because it backs or guarantees our money.



Think about it...

Why does money have value?