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Economics Textbook Chapter 9

1. Give an example of money being used as a measure of value.

Well, I value a small ugly pair of earrings I have, not because they hold sentimental value to me, but because my mother told me they were expensive and I can sell them one day. In contrast, I greatly value a nice pair of earrings because they feel and look good, but they are worth almost no monetary value.

2. How was paper money started?

Paper money can be traced back to 7th-century China and was used as a means of making payments in the form of handwritten receipts. Over time paper money changed to credit notes and eventually to government-issued money.

3. Does the USA have representative money or fiat money?

Both. It has paper dollars that the government issued out, and it has nickels and pennies and such that don't actually contain much nickel or penny anymore.

4. Why is it dangerous for the government to keep printing money in a fiat currency economy?

Because it will bring the value of the paper money very far down leading to inflation, and we can see that in the U.S. economy now.

5. When measuring the money supply of an economy, what is the difference between M-1 funds and M-2 funds?

M-1 includes money in checking accounts, but M-2 includes all of M-1 as well as money market funds and savings deposits.

6. What is the benefit of federal and state regulation of banks, rather than allowing private banks to proliferate?

Consumer protection and stability in the financial system.

7. If money is only worth what it will buy, imagine what would happen if there were so much money around that a merchant could charge whatever he wanted for a dozen eggs, and you'd be able and willing to pay it. What would happen to the worth of a single dollar then?

It would drop astronomically because there is no way to know what a dollar will buy you.

