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Economics Textbook Chapter 9

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

If a cake pops 2 dollars and 1 coffee is 6 dollars, then 3 cake pops is the value of 1 coffee.

2. How was paper money started?

They started using receipts they received for gold deposited and people didn't want to carry heavy coins, the receipts served as money even though there was not enough gold to back it all as long as they didn't all want their gold back at the same time it worked.

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

Fiat money.

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

If there is unlimited supply of money then it loses its value

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

M-1 immediate spending money for exchange like paper, coins and traveler checks
M-2 money that can be spent after a short delay the PLUS the M-1 money that is immediately available

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

regulated banks are insured so that there is not a 'run' on a bank, your money is backed by the federal reserve up to 250000, freedom to withdraw/transfer, good profit over time on interest and keeps bank notes consistent

ensures fair banking practices

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?

the value of the dollar would drop to pennies

