**Economics 120 Weekly Assignment – What exactly is money?**

**Skim through the following information from the Bank of Canada’s “Money in the 21st Century” explainer, then complete the activities below each section.**

**What is money?**

It’s hard to imagine a world without money. Before money, people had to trade goods and services. This was difficult and inconvenient—imagine using cows to pay for clothes or paying your babysitter with wheat.

One way to answer the question “What is money?” is to describe what it does and the problems it solves.

* **Money is a medium of exchange.**It makes it easier to buy and sell things. For example, it’s easier to reach into our wallets at the grocery store than it is to herd cattle or carry bushels of wheat into the store.
* **Money is** **a store of value.**A big problem with using things like cows and wheat as currency is they don’t last forever. After a while, cows get old and wheat spoils, so they lose their value. A $10 bank note will be worth its face value no matter when you spend it.
* **Money is a unit of account.** Money makes it simple to compare prices. If one merchant accepts cows for payment and another wants wheat, it’s hard to figure out which is the better deal. It’s easier when everything is priced in dollars.

Here’s another way to think about modern money: It’s a social agreement. Society gives value to bank notes and coins, and this helps us make informed choices when we buy what we need, save for the future or settle debts. But money can keep its value only if people have confidence in it. The Bank of Canada works to make sure the country’s dollars hold their value over time.

**Activity: Check out the timeline of the History of Money at *PBS:***

<https://www.pbs.org/wgbh/nova/article/history-money/>

1. **What is the first point in history that a form of money fitting the description above appeared? How does it fit the definition?**

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1. **(Not related to the money timeline) Would money that is transmitted digitally (etransfer, debit cards, Pay Pal) still be considered money according to the above description?**
2. **Check out the description of cryptocurrency below. Would cryptocurrencies (also called cryptoassets) be considered “money” by the bank of Canada? Why?**

**Cryptoassets**

All the electronic transactions we’ve talked about so far leave a record that can be traced. Until recently the only way to buy or sell something anonymously was to use cash.

That’s changing with the use of virtual products, such as bitcoin. These live and move on a computer network that directly links users. Transactions take place between anonymous addresses and are recorded on a “distributed ledger.” There is no trusted third party to manage the system or gather user information.

[Deputy Governor Tim Lane puts cryptoasset developments into context and explains the Bank’s work on this file. Check it out.](https://www.bankofcanada.ca/multimedia/haskayne-school-of-business-speech-webcasts-01-october-2018/)

Many people use the term “cryptocurrencies,” but the Bank prefers to call them cryptoassets. That’s because these products don’t do a good job of performing the basic functions of money.

**Cryptoassets don’t function like traditional money**

Think back to the beginning of this article about what money is supposed to do.

* Cryptoassets aren’t widely accepted as a **medium of exchange**. Try to find a supermarket that lets you buy groceries with bitcoin.
* Cryptoassets aren’t generally a reliable **store of value**. For example, the price of bitcoin jumped from just over US$1,000 at the start of 2017 to more than US$18,000 in December of that year. Then it fell by three-quarters over 2018.
* Cryptoassets don’t work well as a **unit of account**. Because cryptoassets aren’t associated with national currencies, such as the Canadian or US dollar, vendors that accept them need to constantly adjust their prices.

**For-Credit Extension Activity (Outcome 5.1) :**

**Watch a bit of the documentary *Banking on Bitcoin.*  You should be able to find it on Youtube:**

<https://www.youtube.com/watch?v=6jSm9vTBGKU>

While the whole documentary is interesting, if you don’t have the time, just watching the first 23 minutes should give you some background on what cryptocurrency is, and the reasoning behind its development.

Respond: Even if you don’t quite understand exactly how it works, what do you think about cryptocurrency? What do you think about the reasons behind its development? Do you think the concept is worth refining?