

Chapter 1

An introduction to money

Introduction

In this chapter, you will:

- learn about the origins of money and its growth from barter systems;
- consider the definition of money, its functions and its attributes;
- find out the purpose of money, as:
 - measuring;
 - recording;
 - transferring value;
- learn about money as a means of exchange, including:
 - what can be used as money;
 - the benefits and limitations of each;
- find out where and how money is transferred, including:
 - the operation of bank accounts;
 - clearing, CHAPS and Bacs;
- consider other means of settling debts:
 - credit cards;
 - debit cards.

Learning outcomes

In this chapter, you will:

- be introduced to the concept of money;
- learn where money came from;
- define what makes something money;
- explain the purpose of money;
- learn how money may be transferred;
- learn about other ways in which debts may be settled.

1.1 Background

In the past, people did what they needed to do to survive. They hunted their own food, grew their own crops and built their own shelters. Even then, it didn't take them long to realise that some people were better than others at hunting, or cooking, or building. It therefore made sense for these people to specialise – that is, to become full-time hunters, cooks or builders. But this meant that there had to be some way of valuing each person's work against another's.

At first, a system of swapping was used: for example, 'if I hunt you a beast, you will cook it for me', or 'if you cook me a meal, I will mend your fence'. This system – in which goods or services are exchanged – is called **barter**. You can see that it would have its problems: what if my mending of the fence was really worth two meals, or three, to you? What if you didn't need your fence mending, but I needed feeding? What if you might want my services in the future, but not now? Specialising also meant that people often produced more than they needed, so they needed to exchange this **surplus** for goods or services that they did need.

Barter is a system for the exchange of goods or services.
Surplus goods or services are those produced that are extra to a person's needs.

Activity 1.1

Write a definition for 'money'. Share your definition with others in your class or group to see if you agree. Agree on a class definition.

1.1.1 Barter

Exchanging goods or services is called 'bartering'. Before money existed, it was how all trade was carried out. In some countries and cultures, bartering is still common. But bartering has disadvantages: you have to find someone who wants what you have to sell and has what you want in return, in the right amount, at the right time, and of the right standard. Bartering requires what is called a 'coincidence of wants': if you want to make an exchange with me, but I do not want what you are offering, bartering will fail.

Activity 1.2

Try exchanging some goods in class using barter. What problems do you encounter? Agree on the three most common problems.

1.1.2 The development of money

Some way of making barter more efficient therefore had to be developed. People started by swapping things that had a perceived value, such as cows, or wheat. We can trace the

use of cattle and grain as a kind of money back to around 9000–6000 BC. All sorts of different things have been used as money, including (in no particular order):

- beads;
- cowrie shells;
- feathers;
- leather;
- oxen and pigs;
- stones;
- salt;
- rice;
- vodka.

Over time, some disadvantages of these types of money became clear. Cattle, for example, aren't easily divisible if you want to pay a small amount, big stones are hard to transport and grain doesn't keep well. So people found better alternatives to the barter system.

Did you know?

Some UK communities have overcome the disadvantage of bartering by agreeing how many 'points' different goods and services are worth and trading using these points. These barter systems are called 'local exchange trading systems' (LETS). Such a system is particularly useful for communities that are cash poor, within which people want to trade labour and home-produced goods (such as two hours of gardening or homemade bread) for other home-produced goods and services.

1.2 Defining 'money'

Look at the problems you had when trying to exchange goods in class (Activity 1.2). They should fall into three groups, as follows.

- *Deciding on a rate of exchange*

How many pens are worth one book? How many apples to a pen? Is an apple worth more to me at this moment, because I'm hungry?

- *Finding someone who wants to swap*

What you want to get rid of needs to coincide with what someone else wants; what they want has to combine with what you want. This **double coincidence of wants** is unlikely.

A **double coincidence of wants** refers to the situation in which what I want to have coincides with what you want to lose, and vice versa.

- *Storing value*

How can you save using apples, or pencils? How do you know what will be their future value?

Each of these problems is linked to the ability to make a payment. Money may therefore be defined as '*anything that is widely accepted as a means of making payments*'.

Activity 1.3

Look at the definition of money on which you agreed as a class in Activity 1.1. Now that you know about barter and a little more about money, what changes would you make? What qualities or features do you think money has to have?

1.2.1 The functions of money

The functions of money – that is, what we need it to do – can be summarised as follows:

- *A means of exchange* – that is, that you can buy and sell things with it. So, for example, workers exchange work for money and then use money to buy goods or services. As long as they have confidence in money as a medium of exchange – that is, they know other people will accept it as well – workers will work for money and sellers will accept it as payment for goods.
- *A store of value* – that is, as a means of saving. Money must be such that you can store it without it losing its value.
- *A standard for deferred payments* – that is, a measure of what we owe. Money lets us pay for things some time after we bought them (or we can spread the payments over a period of time). If payment is deferred – that is, delayed until later – the seller can't use the money owed to them immediately. The buyer therefore usually has to compensate the seller by paying interest.

1.2.2 The attributes of money

By 'attributes', we mean those properties or qualities that we need money to have. Firstly, and most importantly, the form of money must be acceptable to people. In addition, it must be recognisable, stable, divisible, portable and reasonably scarce.

- *Acceptability*

It doesn't matter about the **intrinsic value** of anything used as money, as long as people are prepared to accept it at **face value**. People must have confidence in the thing that we use as money. It doesn't matter, therefore, if the real value of the metal used to make coins is lower than the face value of the coins.

Intrinsic value is the 'real' value of something, ie what it is worth in itself.

For example, a £10 note is made only of paper and has little intrinsic worth – its value lies in the fact that it can be exchanged for goods and services; a gold coin, on the other hand, would have a high intrinsic value, because of the worth of metal itself.

Face value is the value as stated on a note or coin.

People who receive money must be confident that they will be able to spend it, for the same value, in future transactions. Early forms of money therefore had an intrinsic value in their own right. Materials that are precious (because of their scarcity) were used to make coins: for example, gold, silver and bronze (this is why we still have ‘gold’, ‘silver’ and ‘bronze’ coins).

But over time, materials with little or no intrinsic value have come to be used: for example, paper. A banknote does not really have any value – it is only a printed piece of paper – but its acceptability is what gives it a value. People accept notes or coins on trust, or faith; notes or coins have **fiduciary** value.

Fiduciary derives from the Latin *fides*, meaning ‘faith’ – hence why ‘Fido’ is a popular name for a dog!

- *Recognisability*

Money must be immediately recognisable. When we buy goods and services in the UK, the seller usually wants to be paid in pounds sterling rather than (for example) in US dollars. A UK seller will also be more familiar with the look and feel of UK notes and coins, so there is less chance of their being tricked with forged notes than there would be were they to accept foreign currency. Many shops in England and Wales won’t even accept Scottish banknotes, although the same doesn’t apply in reverse, because English notes are well known in Scotland.

Because money is recognisable, it’s also tempting for fraudsters to produce forged (fake) money that looks very like the real thing. The government’s Treasury spends a lot of time and money finding ways to make it hard for such fraudsters to do this: things such as including a metal strip in a banknote, watermarks and complicated designs can make it hard or expensive to print and produce good fakes.

- *Stability*

Each unit of money must be reasonably stable and therefore able to hold its value – that is, we hope to avoid significant **inflation**.

Inflation refers to an increase in prices (and therefore a decrease in the value of money) over a time period.

- *Divisibility*

Transactions can be of any size, so notes and coins must be divisible into small units that combine to make up any amount. If the unit of money offered in payment

is greater than the value required, divisibility lets us give change. Any amount can be paid from a bank balance.

- *Durability*

Money needs to be durable – that is, lasting or hardwearing. At one time, gold and silver were used to manufacture money – because of their intrinsic value – but gold is actually too soft to make good, long-lasting coins. Notes do not last as long as coins, but do not tend to be used as often, because they are for amounts of a higher denomination. The Bank of England regularly replaces notes.

Money held in a bank account, meanwhile, has no physical form, so cannot deteriorate.

- *Portability*

Money needs to be carried around, so, over time, the weight of coins has tended to fall, improving portability. Paper money has made it very easy to transport large amounts of money easily. The tools to transfer electronic money, such as **cheques** and payment cards, are even more portable.

A **cheque** is a promise to pay the recipient; a promise that the bank honours by transferring the money to the recipient or to the recipient's bank.

- *Scarcity*

If there's lots of something, people see it as having little, or no, value: for example, potatoes. So, to be seen as valuable, something should be limited in supply: the scarcer something is, the higher its price is likely to be. There must be enough money for people to make all of their transactions, but it should not become so common that it loses its value.

There is one further, final quality that money should have.

- *Homogeneity*

This word comes from the Greek *homos*, meaning 'the same'. Every unit representing a specific value must be exactly the same, so that you know the value of each piece of money. For example, if you compare two 20 pence pieces, they should be of exactly the same size and shape.

Did you know?

The word 'money' comes from the Latin *moneo*, meaning 'to advise'. In ancient Rome, the goddess Juno was known as 'Juno Moneta', because she advised the people.

The story goes that the first Roman mint (a place at which coins are made) was built close to a temple dedicated to Juno Moneta, so the coins made there had an image of her head on them – maybe as a tribute to her; maybe only to show from which mint they came. In any case, the result was that the word *moneta* came to mean both 'coin' and 'mint', as well as 'adviser'.

We still use the word 'monetary' today when speaking of things relating to money.

1.3 The purpose of money

Money is therefore necessary for trade to take place efficiently. Not only does it allow exchange to take place, but it also means that the exchange can take place over a period of time, or between different countries.

Money acts as a unit of account—that is, it is used to:

- *measure value* – money such as the UK's pound sterling represents the same value on a given day, allowing sellers to set a price. Money acts as a way in which to measure and compare the worth of things. As a standard unit of value, money allows us to compare the relative prices of goods and services: for example, car A costs £10,000 and car B costs £12,000, so car B is more valuable than car A;
- *record value* – money allows us to see how the value of something has changed either over time or between places;
- *transfer value* – money allows a price to be set so that value can be exchanged between one person and another. Such transactions can be recorded, so this means that money doesn't even have to physically change hands.

1.4 Money as a means of exchange

Not everything that seems to be money actually *is* money. Money must, above all else, be acceptable. Money's status as **legal tender** makes it generally acceptable: it means that, in law, someone cannot refuse to take it to pay off a debt. Bank of England banknotes are legal tender in England and Wales, but not in Scotland or Northern Ireland. In Scotland, the only legal tender is £1, £2 and £5 coins. Three Scottish banks still print their own notes (as many English banks used to), but Scottish banknotes aren't actually legal tender anywhere (including in Scotland). This doesn't mean that they can't be used – they are, all the time; it means only that someone can, in theory, refuse to accept them to pay off a debt and insist on being paid in something that is legal tender. It is, however, rare for anyone to do so.

Legal tender is the amount or type of money that cannot be refused in payment of a debt.

Coins worth £1 and more are also legal tender in England and Wales, but coins for smaller amounts are only legal tender for debts up to a certain amount. For example, 20 pence pieces are legal tender for up to £10 in a single transaction. This is mainly because it's not practical to pay a large amount in small coins.

Activity 1.4

The following table lists items that could be used as money. The attributes that money should have are listed in the column on the left. Tick the attributes that apply to each item.

	Cattle	Feathers	Metal coins	Paper money	Money in a bank account
Acceptability					
Homogeneity					
Divisibility					
Durability					
Portability					
Scarcity					
Recognisability					

1.4.1 What is money worth?

Money is worth what it will buy you. We call this the ‘purchasing power’ of money.

We’ve already seen that a key function of money is to give us a standard measure of value. We use it to express what something’s worth in a way that means something to other people: for example, the price of a car may be £10,000.

The price of goods also lets us compare how the value of money itself varies, both with time and across international borders. We can:

- compare purchasing power over different periods (£100 today will buy you a different amount of goods from the amount that it did fifty years ago);
- compare purchasing power in different countries (£100 will buy you a different amount of goods in England from what £100 worth of rand – the South African unit of currency – will buy you in South Africa).

Activity 1.5

Different countries use different notes and coins. What currencies do the following countries use?

- a) Germany
- b) USA
- c) Japan
- d) France
- e) India

What other countries’ currencies can you list?

Activity 1.6

Discuss the following points.

- Would £50 have bought more in 1990 than it does today?
- Do things cost more in countries where the standard of living is high, or do they cost less?
- What other factors affect the value of money over time?

1.4.2 What is *not* money

The following are not money, but can be used to transfer money and therefore value.

- *Cheques*

A cheque itself is not money. It is simply a way of transferring money from one bank account to another; the actual money is the balance that the account holder has at the bank. The cheque is an instruction to transfer part of the money to another account and it is one of the most widely used ways of doing so. As electronic means of making transactions have become more widespread, the use of cheques is in decline, with many major retailers now refusing to accept them.

A cheque is a written instruction from the account holder to the bank, to make a payment for a certain amount to a named person or organisation. The bank deducts the money from its customer's account, provided that it holds enough money. If there is not enough in the customer's account, the bank may refuse to make the payment – this is what happens when a cheque 'bounces'. We'll look at cheques in more detail later.

Activity 1.7

One of the oldest examples of a way of transferring money is the cheque. Refer to the table in Activity 1.4, which listed the attributes required for something to qualify as money. How many of these attributes do cheques have? (Bear in mind that cheques are made out for a specified amount and to a named person.)

- *Travellers' cheques*

People use travellers' cheques to take money abroad. They come in sterling (£) or foreign currencies, such as the US dollar (US\$). People travelling to other countries can either exchange them for cash in the local currency at a bank in the country they are visiting, or they can sometimes spend them in shops and hotels. Travellers' cheques are an example of something that is often thought of as money, but they are, technically, a payment mechanism. People take money from their bank account to buy them.

A relatively new development has been plastic card travellers' cheques (currently being offered by American Express). These cards are a substitute for paper

travellers' cheques. People buy an amount of foreign currency to put on the card. They then use the card to pay for goods and services in the foreign country. This type of plastic card is called a 'pre-paid' card, because the user has already paid for the foreign currency that is stored on it.

- *Oyster cards*

The Oyster card is used in London to make small payments, particularly for London Underground ('Tube') and bus travel. Many shops also take the card and its use (or that of similar cards) may spread to the rest of the country. These cards are also 'loaded' with cash by their owners.

- **Debit cards and credit cards**

A **debit card** is a means of transferring money from an account.

A **credit card** is a means of borrowing money.

Debit and credit cards, such as VISA, MasterCard, Switch, American Express and so on, are payment mechanisms, rather than money. People might talk about credit and debit cards as 'plastic money', but they are simply the tools that we use to instruct our banks to transfer money from our account to those of someone else.

Most adults have at least one – and often many – plastic cards in their wallets. This is because:

- different cards can have different uses;
- some cards represent borrowing power – the more credit cards someone has, the more credit they can use.

- *Charge cards*

Charge cards work on similar lines to credit cards, but the entire balance must be paid off (usually from the holder's bank account) each month. Examples include American Express and Diners' Club cards. Some charge card operators also offer credit cards.

- *Store cards*

Store cards are credit or charge cards offered by department stores. They can be used to buy goods, but only in branches of the store or group that has issued them.

Did you know?

Plastic cards often have special security features built into them: for example, most credit and debit cards now have a Personal Identification Number (PIN) known only to the holder, and a chip holding security information. These measures are meant to improve safety by stopping thieves and fraudsters from being able to use cards.

1.5 Where and how money is transferred

Most people think of money as notes and coins. While this is true, notes and coins are only a small proportion of the total. Most of the world's supply of money is held in the form of bank balances. These bank balances are electronic computer records, rather than actual notes and coins.

Activity 1.8

List what you think are the advantages and disadvantages of holding money with a bank.

Tools are needed to transfer bank balances, because it is not practical for all transactions to be carried out in notes and coins.

- Transferring large sums from one place to another would be physically difficult (even using large denomination notes, £1m takes up a large space).
- It would be dangerous because the risk of robbery would be very high.
- International transactions would take a long time, because notes and coins would have to be taken overseas.

We don't have to rely on moving physical money around: we can transfer its value by way of tools such as cheques, travellers' cheques, credit cards, and so on.

1.5.1 The operation of bank accounts

Banking works as follows: people place (deposit) money in a bank to store it safely, for later use. The value that someone has deposited with a bank is their balance with it. Banks don't keep all of the money deposited with them in the form of notes and coins; instead, they hold most of it as electronic balances, usually with other banks.

If a depositor wants to use the money that they have placed with a bank, however, they can withdraw it in the form of notes and coins. The high-street banks know more or less how much cash people will want on one day, so they hold enough notes and coins on the premises to meet this demand for cash.

Most people prefer to spend money by transferring part of their balance to the seller's bank account. This is safer than carrying cash. They do this by way of paper and electronic transfer mechanisms, such as cheques and debit cards.

Activity 1.9

If you write a cheque without having enough money in your account to cover it, then, when it is returned to your bank, your bank may refuse to pay it. How do you think it might help to have a cheque guarantee card?

1.5.1.1 Current accounts

The most common form of bank account is the **current account**. These enable people to store money safely and then withdraw it as cash when they need it. Cash is still the biggest payment mechanism, even if the individual transactions are for small amounts.

A **current account** is a convenient account providing basic banking services.

A major benefit of a current account is that it enables the account holder to pay and receive money electronically – that is, via computer networks. This makes transferring money from one person’s bank account to that of another:

- quick;
- easy;
- safe.

Example 1.1 shows the process of paying by and clearing a cheque.

Example 1.1 Paying by cheque

Statement 1	
ABC Bank	High St Bank
Account: Catherine	Account: Steve
Balance: £40	Balance: £10

Steve sells some secondhand books to Catherine for £10. Catherine pays by cheque. Steve banks with a different bank from Catherine. The eventual effect is as follows.

Statement 2	
ABC Bank	High St Bank
Account: Catherine	Account: Steve
Payment: £10	Deposit: £10
Balance: £30	Balance: £20

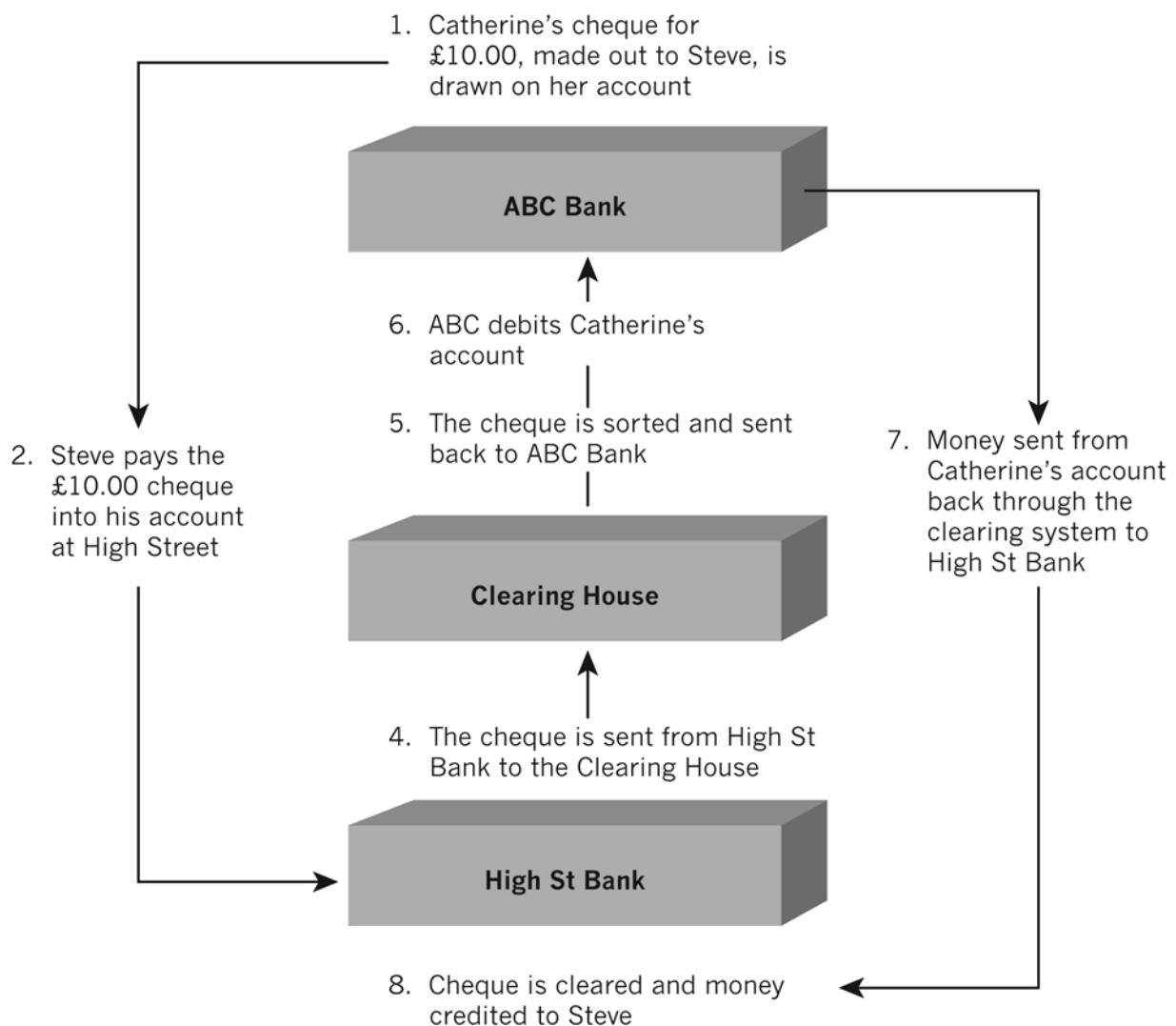
But how does the cheque actually move money from Catherine’s account at ABC Bank, to Steve’s at High St Bank?

It goes through a process called ‘clearing’, which works as follows (see Figure 1.1).

1. Catherine writes a cheque payable to Steve, because she wants to move money from her account to his in payment for the books that she’s just bought. She doesn’t need to go anywhere near her own bank, ABC Bank, to do this; she simply takes out her chequebook and writes the cheque.

2. Steve takes the cheque from Catherine, because he's happy that this will be a way in which to get the money into his account.
3. Steve walks into his own bank (High St Bank) and pays Catherine's cheque in over the counter, using a paying-in slip to credit his own account there.
4. High St Bank sends Catherine's cheque, along with all of the other hundreds of cheques that have been paid in over its counter that day, to the clearing house.
5. At the clearing house, all of the cheques are sorted into piles to be sent back to the banks on which they were drawn – that is, on the chequebooks of which they were written. So Catherine's cheque is returned to Catherine's bank: ABC Bank.
6. When ABC Bank gets the cheque, it treats it as an instruction to pay the money to Steve. It debits (takes the money out of) Catherine's account.
7. ABC Bank sends the money back through the clearing system to High St Bank.
8. High St Bank receives the money that it has been expecting for Steve and credits (adds) it to his account balance.

Figure 1.1 Drawing and clearing a cheque



Most people nowadays prefer to get their salaries paid directly into a bank account, rather than to receive cash each month that could be lost or stolen. Current accounts give depositors easy access to their money by way of a chequebook. They also help your bank balance to meet one of the necessary attributes of money: portability.

Sometimes, these cheque accounts, or current accounts, pay interest on credit balances. A current account will not normally pay a large amount of interest on the positive balances, although the charges imposed on negative balances can be quite high.

Activity 1.10

Cheques are rapidly dying out as a means of exchanging money. Why do you think this is happening?

Once an account is open, you can put money in it by:

- making a cash deposit – for example, by walking into the bank and paying cash across the counter;
- paying a cheque in;
- transferring money from another account.

With a current or cheque account, you can get access to the money in several ways. You can withdraw it in cash, over the counter, or by using a cash card in a cash machine. These machines pay you notes and deduct the money from your account.

Of course, such physical transactions will soon be part of history. Already, account holders frequently don't have to handle the cash at all: most banking transactions are already carried out using electronic means, by which money gets transferred straight into the account of the person that they want to pay. If, for example, Catherine had been buying from a shop using a debit card, information and funds would all have been transferred via electronic instruction.

1.5.1.1.1 Statements

Current account holders get regular statements (often monthly). These show:

- the balance at the start of the period;
- all of the debits and credits that have gone through the account (including amounts and dates);
- the balance at the end of the period.

They also show any charges that the bank has imposed and any interest it has credited. Banks do occasionally make mistakes, so it's important to check your statement carefully.

When someone opens a current account, as well as being given a chequebook, they sometimes also get a **cheque guarantee card**. This usually only happens when they have been with the bank for a while and have proved that they are a good customer. This card is used when writing cheques, to guarantee to the person being paid that the cheques will be honoured by the bank, up to a certain amount (generally £50 or £100 per cheque) – even if the writer doesn't have enough money in their account to cover it.

A **cheque guarantee card** is a bank card that guarantees the value of a cheque up to a certain amount.

Did you know?

In Example 1.1, if Catherine were to have written a cheque payable to Steve, but have no money in her account and no overdraft facility, her bank could have returned it unpaid. This is called 'bouncing' (dishonouring) a cheque. It would mean that Steve would have to contact Catherine and tell her to find some other way of paying him.

A cheque guarantee card gives a guarantee from Catherine's bank that her cheques will be paid, up to a certain limit, even if the money is not in her account. It therefore helps with the acceptability of cheques, because it means that the recipient – in this case, Steve – needn't worry about whether Catherine's cheque will bounce.

Cheques are not 'legal tender' and so, in our example, Steve could have refused to accept Catherine's cheque in payment for the books, insisting on cash instead.

1.5.1.1.2 Overdrafts

It is usual for current account customers to have access to an **overdraft** facility. This is a credit facility that allows a bank's customer to take out of (draw on) their account money that they do not have, but which the bank has given the customer permission to borrow. Most overdraft facilities have charges attached to them, which will be paid on the use of the overdraft.

An **overdraft** represents permission (given by the bank on your request) to take more out of your account than you have in it – it is, therefore, a loan.

1.5.2 Other ways in which to transfer money

Cheques aren't the only way in which to transfer money through the clearing system; others include **standing orders** and **direct debits**. Account holders can use both of these to pay regular bills.

A **standing order** is a means of paying regular amounts that do not vary from an account.

A **direct debit** is a means of paying varying amounts (within limits) from an account, by giving an organisation permission to request money from an account.

A standing order is a customer instruction to a bank to pay a set amount to a person or an organisation on regular, specific dates. The amount is always the same and the customer has control of the payments (so they can alter or stop them if necessary).

Direct debits are also used to make regular payments. They differ from standing orders, in that the customer gives the organisation being paid the ability to request payments direct from their bank account. This could be for a fixed monthly sum, but, more often, it's used where the payments are for different amounts each time. This means that the organisation being paid can take out a different amount without needing a fresh instruction from the person paying. The amount is set within limits and, if there is any change outside these limits or in the date of collection, this must be advised to the customer in advance. If the organisation that collects a direct debit takes out an incorrect amount, it must refund it immediately to the customer's account.

Activity 1.11

Make a list of things that people might pay for using a standing order. Remember, standing orders are used for payments that are regular in amount and frequency.

List things that people might pay for using a direct debit. Remember, direct debits are often used for payments that are different each time.

1.5.2.1 Online banking

Account holders can also give their bank instructions to transfer money from one account to another by telephone or through its Internet site. This is particularly useful if transfers must be done quickly. These transfers need verification by code numbers or passwords.

Activity 1.12

Discuss the types of security measure that are used to protect online accounts and suggest others.

1.5.2.2 Other types of account

Banks also lend, by way of loans and mortgages (for example, for house purchase). Loans and mortgages can be operated from accounts that are separate from current accounts.

Banks also offer deposit accounts, on which they pay interest. The rate of interest depends on the size and term – that is, the length of time – of the deposit, and on the level of interest rates in the market at the time. A deposit account will always be kept in credit.

1.5.3 Clearing

The process of settling the amounts due – from cheques drawn on one bank and paid into another – is called clearing. It often takes a few days for cheques to clear.

The clearing process includes several parts, including the **Clearing House Automated Payment System (CHAPS)** and **Bacs**.

The **Clearing House Automated Payment System (CHAPS)** is a sophisticated computer system that settles payments between banks immediately.

Bacs is a separate electronic clearing system that allows banks to transfer money swiftly and securely from one bank account to another.

1.6 Other means by which to settle debts

1.6.1 Credit cards

Credit cards let people borrow money flexibly over a short or long period. Each card has a credit limit; the cardholder can use the card to buy goods and services up to that limit.

Once a month, the credit card company sends the cardholder a statement showing the transactions that have been made on the card. The cardholder can choose how much of the balance – that is, the total credit taken – to repay to the credit card company. The repayment may be for any amount between a set minimum (usually 5 per cent of the balance borrowed) and the entire balance. Any credit that the cardholder does not repay rolls over to the following month. The credit card company charges interest on the credit that rolls over.

Credit card companies belong to credit card associations. These associations provide the computer networks that enable credit card transactions to be processed. They also supply the brand name and logo for the card, as well as rules about how cards can be used. VISA and MasterCard are two international credit card associations. For example,

people can use cards with a VISA symbol in shops, restaurants, hotels and Internet sites wherever the VISA symbol is shown. VISA is accepted all over the world.

1.6.2 Debit cards

Debit cards are the nearest substitute for cheques. Just like a cheque, they are used to arrange a prompt transfer of money from the cardholder's account to the seller of goods and services. Examples of debit cards are VISA and Delta. The debit cardholder, in effect, instructs their bank to make the transfer.

Chapter summary

In this chapter, you have:

- learned about the growth of money from early barter systems;
- decided on a definition of money;
- considered the purpose of money;
- learned about the functions and attributes of money;
- looked at some things that are, and are not, money, and why;
- looked at the operation of a basic bank account;
- considered how money is moved around the financial system to let us pay for things.

Key terms: barter; surplus; double coincidence of wants; intrinsic value; face value; fiduciary; inflation; cheque; legal tender; debit card; credit card; current account; cheque guarantee card; overdraft; standing order; direct debit; Clearing House Automated Payment System (CHAPS); Bacs.

Suggested answers to activities

Activity 1.1

Your answer is likely to have been a variation on the definition 'anything that is widely accepted as a means of making payments'.

Activity 1.2

The main problems are likely to have been deciding on a rate of exchange, finding someone whose wants coincide with yours and deciding on a measure of value.

Activity 1.3

This is a discussion activity. You should be able to update your definition to include what you have learned about money. It should have the qualities listed on the table in Activity 1.4.

Activity 1.4

	Cattle	Feathers	Metal coins	Paper money	Money held in a bank account
Acceptability			✓	✓	✓
Homogeneity			✓	✓	✓
Divisibility			✓	✓	✓
Durability			✓	✓	✓
Portability		✓	✓	✓	✓
Scarcity	✓	✓	✓	✓	✓
Recognisability	✓	✓	✓	✓	✓

Activity 1.5

- a) Germany – euro
- b) USA – US dollar
- c) Japan – yen
- d) France – euro
- e) India – rupee

Activity 1.6

- In 1990, £50 would have bought more than it does today because of inflation – that is, price increases.
- Things tend to cost more in countries where the standard of living is high.
- Other factors include the strength of an economy, political factors (trust in the country), interest rates, etc.

Activity 1.7

	Cheque
Acceptability	
Homogeneity	
Divisibility	
Durability	✓
Portability	✓
Scarcity	✓
Recognisability	✓

Activity 1.8

You might have considered the following advantages and disadvantages, among others.

Advantages	Disadvantages
Safety	You can't see and touch it
No need to carry it around	Lack of access – not with you all of the time
Possibility of earning interest	More difficult to keep track of how much money you have
Easy to transfer	Must give instructions to your bank correctly
Easy to make payments	

Activity 1.9

Cheque guarantee cards help cheques to be accepted. This is because the bank guarantees to pay the cheque, up to a maximum value. This maximum value is written on the card.

Activity 1.10

Cheques are a slow way to transfer money and can get lost (for example in the post), be forged or stolen. Many electronic means are perceived to be more secure, and faster. There is also an expense involved in physically moving cheques around the system that does not apply to electronic means.

Activity 1.11

Standing orders could be used for: flat or house rental; regular subscriptions to a magazine or paper; repayments for a loan where the same amount is repaid each month (eg a car loan).

Direct debits could be used for: mobile phone bills; mortgage payments (which may change as interest rates change); utility bills.

Activity 1.12

Measures include alphanumeric passwords, codes, and asking questions about personal information such as mother's maiden name, memorable addresses, names of pets, etc, that a fraudster is unlikely to know.