

DISCUSSION QUESTION

Name:

Instructor:

Course:

What is the difference between commodity money and fiat money? Which do developed economies use today?

PEER GROUP PROBLEM SOLVING

Name:

Instructor:

Course:

Discuss money as medium of exchange, unit of account, and store of value. Provide examples that are not listed in the textbook.

IN-CLASS EXPERIMENT / ACTIVE EXERCISE

Discuss and define M1 and M2 money supply. Next, go to the Federal Reserve's website, www.federalreserve.gov and find the current money supply figures for M1 and M2, seasonally adjusted. In the last 12 months, what is the percentage change in M1 and the percentage change in M2?

Hint: On the Federal Reserve website, look for Economic Research Data, then Statistical Releases and Historical Data.

SOLUTIONS AND INSTRUCTOR NOTES

Discussion Question

What is the difference between commodity money and fiat money? Which do developed economies use today?

Fiat money: Currency without intrinsic value but accepted as money due to government decree.

Example: U.S. dollar

Commodity money: Currency based on a physical commodity which has value. Examples: gold, silver

No developed economies use commodity money.

Peer Group Problem Solving

Discuss money as medium of exchange, unit of account, and store of value. Provide examples that are not listed in the textbook.

Examples will vary.

Medium of Exchange: As goods/services are sold for money, money is then used to purchase other goods and services.

Unit of Account: Yardstick for comparing and measuring the values of a wide variety of goods and services.

Store of Value: Enables people to store the money they earn today and use it to buy goods and services at a later date.

In-Class Experiment / Active Exercise

Discuss and define M1 and M2 money supply. Next, go to the Federal Reserve's website, www.federalreserve.gov and find the current money supply figures for M1 and M2, seasonally adjusted. In the last 12 months, what is the percentage change in M1 and the percentage change in M2?

Hint: On the Federal Reserve website, look for Economic Research Data, then Statistical Releases and Historical Data.

M1: Narrowest definition of money. Includes currency, traveler's checks, demand deposits, and other accounts with check writing/debit capabilities.

M2: Broader definition of money. Includes all of M1 plus "near monies" such as savings account deposits, money market accounts, and money market mutual funds.

For more in-class experiment and active learning ideas, visit www.econedactive.com