

# The Role of Money in the Economy

Chapter 20: Money and Credit · Topic 1

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## Key Concept

As a medium of exchange, money eliminates the need for barter, allowing people to buy and sell goods and services easily using a commonly accepted currency.

As a unit of account, money provides a standard way to measure and compare the value of different goods and services, simplifying economic transactions and calculations.

As a store of value, money allows people to save purchasing power for future use, rather than immediately spending everything they earn.

Modern economies rely heavily on banking systems, which manage money, provide credit, and facilitate transactions, playing an essential role in economic growth and development.

## Quick Revision Notes

- Money serves as a medium of exchange, unit of account and store of value.
- As a medium of exchange, money eliminates the need for barter.
- As a unit of account, money measures value of goods.
- As a store of value, money allows saving for future use.
- Modern economies rely on banking systems.
- Banks manage money and provide credit.
- Banks facilitate economic transactions.
- Money plays an essential role in economic growth.

## Practice Questions

- 1 Explain the three functions of money with examples.
- 2 Discuss how money eliminates the need for barter.
- 3 Explain how money helps compare the value of different goods.
- 4 Discuss why saving money is an example of its 'store of value' function.
- 5 Research how banks help manage money in the economy.
- 6 Discuss what would happen to trade without money.