

Global banking issues

[Literature](#), [Russian Literature](#)



ID Number: Global Banking Issues Question a) There are four major functions of money. The first major function of money is that it serves as an exchange medium. The second major function of money is that it acts as a value store. The other function of money is that it serves as a value measurement or unit of accounts. The last major function is that money can be referred to as deferred payments standard. In the earlier days the concept of barter system encompassed trading of goods by people. In such a context the purchasing power cannot be easily stored. As there was trade development the goods exchange was not able to meet the requirements of people as the goods that was being exchanged was not able to maintain the initial value. The best example of barter system is that suppose there are two persons, one of them has a goat and the other has a cow and they both want the goods possessed by each other. In such condition the barter system is created so as to get into an agreement for the procedure of goods exchange. However even if the goods are exchanged successfully there would be a time when the goat and cow would die and hence it can be stated that these goods are not able to maintain their initial value over the time. In such a scenario there was evolution of a new concept in the form of money which served as exchange medium (Schwartz 361). This medium was accepted widely by all the traders as it was able to solve the problem that was associated with goods that deteriorated with time.

Question 1 (b)

One of the most important functions of money is that it can be considered to be unit of account that facilitates a mechanism through which value can be placed on the services and goods. This is simply because such a function is a

standard unit in monetary terms for value measurement on services and goods. For instance when a person goes to a supermarket the monetary value of goods can be observed by the person through the price tags on the goods. There even exists monetary value on services such as when a person goes for a spa and gets the required service the person in return pays money to the concerned individual for the availed service. Thus unit of account as a function of money can be regarded as value measurement for services and goods.

Question 2

The supply of money can be considered as liquid instrument and total stock assets at a particular time and this in turn in an economy of a country is accepted as medium of exchange. The Federal Reserve System takes into control the supply of money in America. The supply of money comprises of three essential components such as the first one is M0 that relates to monetary liabilities of central bank. This represents an economy's monetary base which encompasses the bank reserves and circulated currencies. The other component is M1 that relates to liabilities of current account of commercial banks and comprises of transaction currency and deposits of foreign currency. The last component is M2 that focuses on expansion of liquid assets so as to add items that are interest earning such as fixed and savings deposits (Schwartz 269). The liquidity criteria are satisfied with the three primary components of money supply.

Work Cited

Schwartz. Anna., Money Supply: The Concise Encyclopedia of Economics. USA: Princeton University Press. 2008. Print.