

قسم: علوم التسيير

محاضرات في مقياس: اللغة الإنجليزية لطلبة الاقتصاد

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## ENGLISH FOR STUDENTS OF ECONOMICS

"How much you get depends on how much you produce."

Unknown

### Lecture 01: Money

"The real measure of your wealth is how much you'd be worth if you lost all your money."

Unknown

★ **Read the Text carefully meanwhile; underline the New Words.**

#### I-Meaning of money:

In any economy, people produce goods and services and trade them for other goods and services. In the absence of money, this trade occurs through barter, in which one good or service is traded directly for another. Barter was the means of trade in early societies. Often it took place in a village market. Barter is cumbersome. For it to work, individuals must experience *a double coincidence of wants*. This means I have something that you want and you have something I want. Fortunately, in the twenty-first century, money is used almost everywhere. Thanks to money, everyone can be paid, and travelers can buy dinner wherever they go.



**M**oney is a word that economists use differently from most people. In everyday speech, *money* is often used as a synonym for *income* or *wealth*. Someone might remark that “neurosurgeons make a lot of money,” meaning their annual incomes are high. Or you might hear that “Bill Gates has a lot of money” because his wealth—the total value of his assets—is \$133 billion. Gates’s wealth includes assets such as Microsoft stock, other securities, and real estate. For economists, by contrast, *money* is a narrow class of assets with special properties. Money serves the economy as the medium of exchange, the unit of account, and a store of value.



## **II-Functions of money:**

### **II-1- Money as a medium of exchange**

Although money serves several functions, it is defined by its primary role: people use it as the **medium of exchange**. That is, people use money to purchase goods and services. Money is whatever a grocery store or movie theater accepts as payment. In today's economy, dollar bills are one form of money. The balances in people's checking accounts are also money, because many goods and services can be bought by writing a check or debiting an account electronically. Stocks and bonds are not money because you can't walk into a store and trade them for groceries. Rich people keep most of their wealth in securities and real estate, but they keep enough in cash and checking accounts to buy groceries, pay for haircuts, and otherwise purchase the goods and services they desire. The amount of wealth that people choose to hold in money is called **money demand**.

### **II-2- Money as a unite of account:**

In addition to serving as the medium of exchange, money has another related role in the economy. Money is the **unit of account**. This means that prices, salaries, and levels of wealth are measured in money. Dollar bills are money in the United States, and so prices are quoted in dollars. To see why this measurement function is important, think again of an economy without money. In this world, prices would have to be set in units.

### **II-3- Money as a store of value:**

Traditionally, economists have cited a third function of money, one beyond its roles as the medium of exchange and unit of account. Money is a **store of value**—a form in which people can hold wealth. Money's store-of-value function has become less important in advanced economies. In most economies today, holding money is better than holding milk, but holding bonds is better still, because bonds pay more interest. People with financial savvy use money as a medium of exchange, but they hold most of their wealth in other assets. Exceptions occur, mainly in poor countries. In some places, the financial system functions so poorly, that few assets are more attractive than money. People hold much of their wealth in cash. But there is a twist: most of this cash is foreign currency—U.S. dollars or euros—rather than the local money. This currency switch results from inflation.

**Reference:** Laurence M. Ball (2012). *Money, Banking, and Financial Markets*. (26-29) Worth Publishers. New York.

## Key concepts

“In every day conversation, we use “**money**” to denote many different things. We use it as a synonym for **income**: “making money.” We use it as a synonym for **wealth**: “. The text below gives you the main differences between money, some similar terms, and their precise meanings in economics. Read the text below to understand the precise meaning of each term.

- 1- **Money** is what can be used to pay for transactions. Money is currency and checkable deposits at banks.
- 2- **Income** is what you earn from working plus what you receive in interest and dividends. It is a flow— something expressed in units of time: weekly income, monthly income, or yearly income.
- 3- **Saving** is that part of after-tax income that you do not spend. It is also a flow. If you save 10% of your income, and your income is \$3,000 per month, then you save \$300 per month.
- 4- Your **financial wealth**, or **wealth** for short, is the value of all your financial assets minus all your financial liabilities. In contrast to income or saving, which are flow variables, financial wealth is a stock variable. It is the value of wealth at a given moment in time. At a given moment in time, you cannot change the total amount of your financial wealth. It can only change over time as you save or dissave, or as the value of your assets and liabilities change. But you can change the composition of your wealth; you can, for example, decide to repay part of your mortgage by writing a check against your checking account. This leads to a decrease in your liabilities (a smaller mortgage) and a corresponding decrease in your assets (a smaller checking account balance); but, at that moment, it does not change your wealth.
- 5- **Savings** (plural) is sometimes used as a synonym for wealth — the value of what you have accumulated over time.
- 6- **Financial assets** that can be used directly to buy goods are called money. Money includes currency and checkable deposits — deposits against which you can write checks. Money is also a stock. Someone who is wealthy might have only small money holdings — say, \$1,000,000 in stocks but only \$500 in a checking account. It is also possible for a person to have a large income but only small money holdings — say, a monthly income of \$10,000 but only \$1,000 in his checking account.
- 7- **Investment** is a term economists reserve for the purchase of new capital goods, from machines to plants to office buildings. When you want to talk about the purchase of shares or other financial assets, you should refer them as a **financial investment**. Learn how to be economically correct: Do not say “Mary is making a lot of money”; say “Mary has a high income.” Do not say “Joe has a lot of money”; say “Joe is very wealthy.”

**References:** Blanchard, Olivier (2017). *Macroeconomics*. Pearson Education, Inc. Boston. USA.