

Money, Money, Money

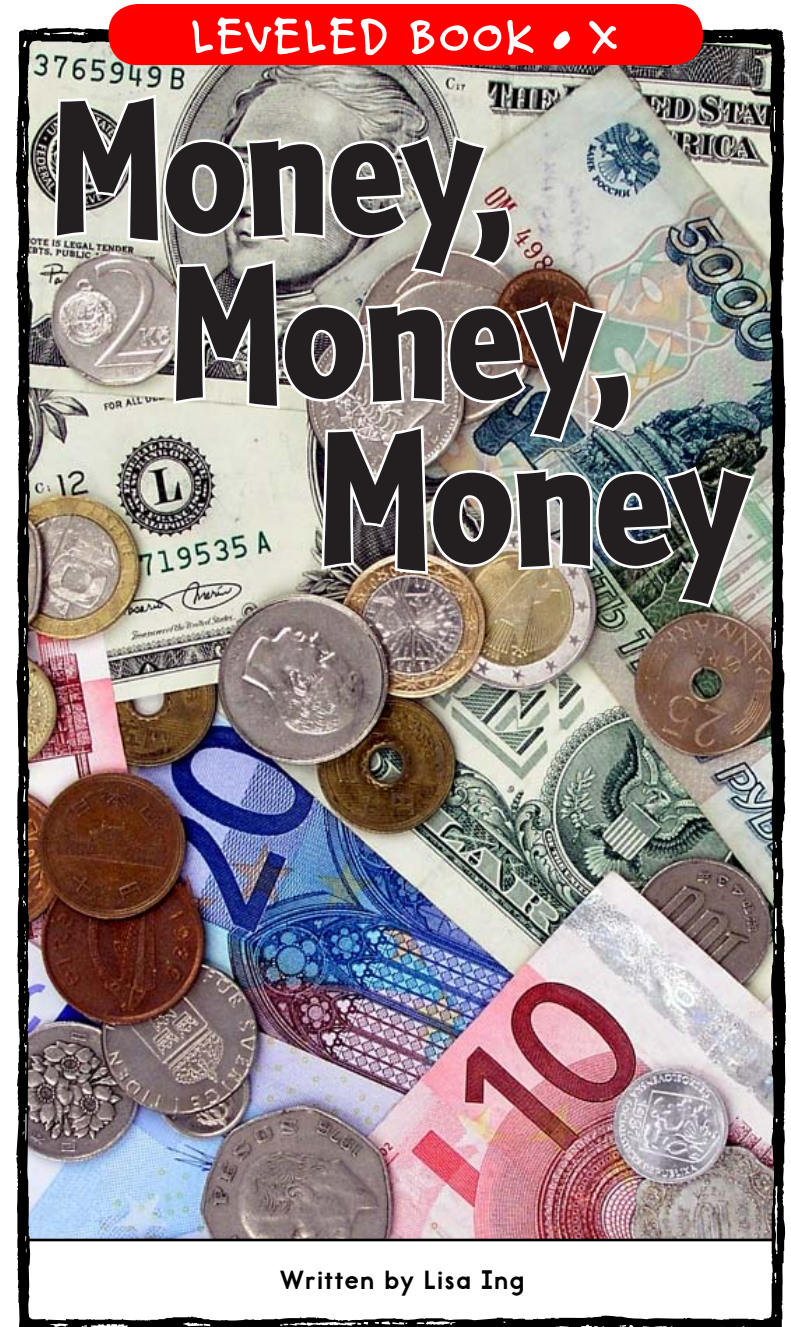
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Correlation

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Money is worth much more than the paper it's printed on.

Introduction

An ordinary piece of paper isn't worth a lot, but a piece of paper money can be worth thousands of dollars. A check can be worth millions. Each printed bill is worth much more than the paper it's printed on. But why? Where did money come from, and what makes money so valuable?

Money is valuable because the people who make and use it agree that it is valuable. The government that issues it, the mint that prints it, the banks that hold it, and the people who buy and sell things with it all agree that money is worth something.

The history of money is the fascinating story of how people changed from trading valuable objects to trading objects that represented their valuables. It also tells how technology creates "invisible money" that allows people to trade goods and materials around the world.

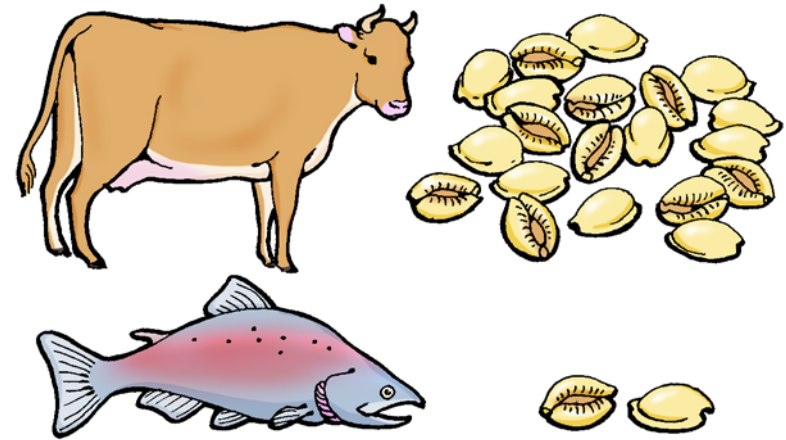
Bartering

Thousands of years ago, people used to **barter**, or directly trade their goods with each other. People living near the ocean had fish and salt, which they traded with people living near the mountains who had fruits, wood, and furs. The barter system continues today. If you trade an apple from your lunch for someone else's candy bar, you are bartering.

However, there are a couple of problems with bartering. You might want some goods or valuable objects from someone, but they might not want the goods that you have. Additionally, many items are heavy, hard to carry, or don't last long.



Bartering allowed people to trade for products they could not get on their own.



Currency allowed people to trade objects without carrying them around.

Currency

In order to get around the problems of bartering, people invented **currency**, or objects that represented certain values. For example, a group of people might agree that a cow was worth twenty shells and a large fish was worth two shells. People could trade goods for currency and vice versa.

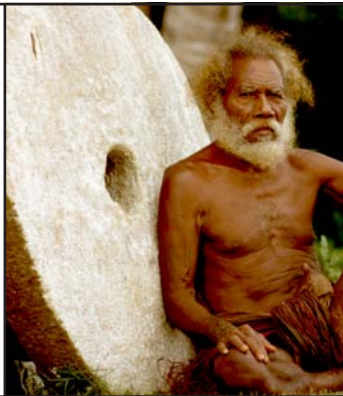
Each culture around the world chose a different item to represent the value of its goods. The objects people used for currency were almost always light enough to carry, but rare enough that people couldn't just pick them up off the ground. The rarer the currency was and the more work it took to find it, the more valuable it was.

Some of the items used as currency in ancient times were bright or colorful stones, shells, leaves, feathers, lumps of silver and gold, salt, spices, and gems. In ancient Rome, soldiers got paid with bags of salt. From Africa to Asia, people traded with rare speckled shells that were only found on a few islands in the Indian Ocean. Some Native Americans used wampum, or beads made from clam shells, to trade and make treaties. Other Native Americans used eagle feathers. The Chinese used bundles of tea leaves, and European colonists in North America used tobacco leaves as their currency.

The problem with currency of this type was that it was hard to decide how much a particular object was worth. If one shell was much larger than another shell, shouldn't it be worth more? And what if you met somebody who didn't think your shells were worth anything at all?

Do You Know?

The biggest currency in the world is used by the Yap Islanders, who live on an equatorial island near Indonesia. They make coins of giant stones that weigh as much as full-grown Asian elephants. The stones have holes in them, and the Yap Islanders move the stones by putting sticks through the holes and rolling the coins.



These ancient coins were stamped with the king's picture.

Coins

One solution to the problems of using ordinary objects as currency was to make coins from precious metals. Precious metals are rare and valuable across cultures, and they are easily shaped and weighed.

The first coins were **minted**, or produced, 2,600 years ago in Lydia, which is now a part of Turkey. From Lydia, coins quickly spread into the neighboring countries of Greece and Persia (now known as Iran). The earliest coins were hammered out of a natural combination of gold and silver called **electrum**. These coins were very rough and crude, with no patterns on the sides or standard sizes and weights. Later, coins were made from either pure gold or pure silver. They had standard weights, and the king's seal was stamped on one side to confirm the coin's quality.

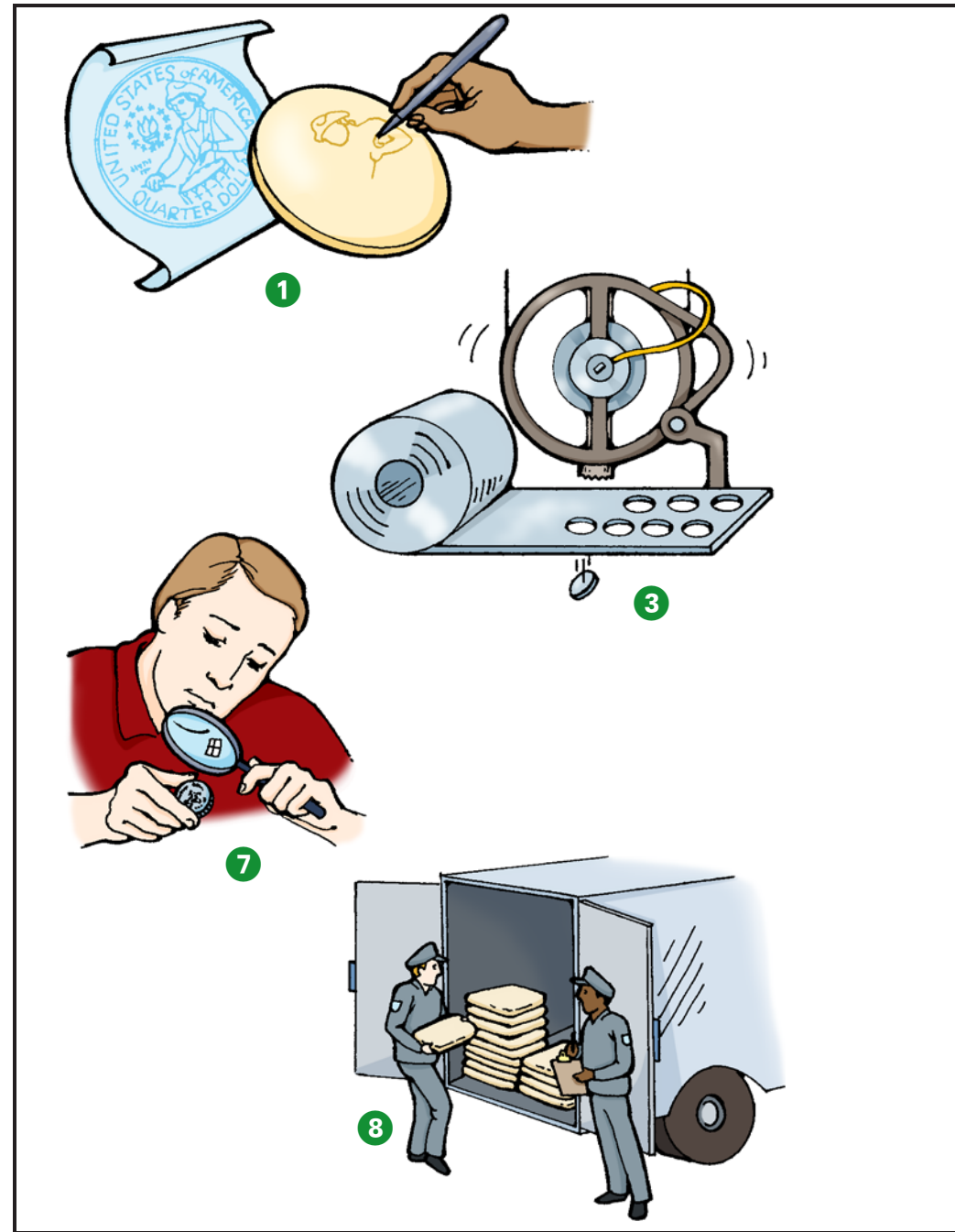
Early European coins usually had a god's head on one side and a seal from the maker on the other. Later coins pictured the heads of kings and rulers, with elaborate symbols on the other side. These pictures helped establish when, where, and by whom the coin was made. Even today, you can see the faces of presidents, kings, and queens on modern coins.



These greek coins had words, a picture of an owl, and a portrait of the goddess Athena.

The Chinese melted copper and poured it into molds where it hardened into coins. Chinese coins had holes in their centers, so thousands could be easily carried on a ribbon or a stick. Instead of pictures, the Chinese coins, called **cash**, had words telling their worth, or **denomination**. Only the government could produce coins.

Chinese cash could be held on a string or stick for easy carrying.



Minting Coins

Coins are harder to make than you might think. Once the government decides to produce new coins, these are just some of the steps that must happen.

- 1 A designer draws a picture of the coin's two sides on a large piece of paper.
- 2 Sculptors make a large, three-dimensional model of the coin. An engraving machine uses the model to make a die, or coin stamp. The die is sent to mints, or factories that produce coins.
- 3 Mints cut blank coins, called blanks, from a rolled-up sheet of the right kind of metal. The sheet can be as long as five football fields.
- 4 The blanks are heated, cooled, washed, and dried.
- 5 A machine called an upsetting mill creates the raised edge of the coin.
- 6 The coin press stamps the pattern from the die into the coin.
- 7 Inspectors make sure that there are no mistakes in the coin. Incorrectly made coins get melted down and recycled.
- 8 The coins are sent out to banks in armored trucks.

Paper Money

A Chinese man named T'sai Lun invented paper 1,900 years ago. But it wasn't used for money until 700 years later when the Chinese government ran out of copper to produce coins.



Early Chinese paper money

They switched to printing paper money. The earliest paper money was printed by hand by pressing wooden blocks covered with ink onto uniformly sized rectangles of paper. Although coins were still available, the lighter paper money quickly became more popular.

In Europe, another invention changed the shape of money. Johannes Gutenberg invented the movable-type printing press in AD 1400. Gutenberg's press allowed people to print paper money by machine, rather than by hand.

The Value of Money

Unlike gold or silver coins, paper money is worth very little by itself. It costs only four cents (U.S.) to print a bill, including the cost of the paper, ink, and the printer's pay. So why is one piece of paper worth a hundred dollars? And why is another worth only one?

Because the government says so. A hundred years ago, for each dollar in **circulation**, the government had one dollar's worth of gold in a bank. This system was called the gold standard, because it ensured that every dollar represented its **face value**, or the number printed on it, in gold. Back then, you could trade your dollars for the same amount of gold at the bank.



Banks used to keep bars of gold that represented the sum of everyone's money.



Do You Know?

Since travel from country to country has become so easy, it can be a bother to change one country's money to another country's money every time you travel. Some countries have agreed to share the same currency. Most of Europe's nations recently joined together to form the European Union. They standardized their money so that the euro is worth the same amount in each nation. Each country mints euros. The tail side of the euro has a picture that symbolizes the country that made it.

Most countries do not maintain the gold standard anymore. There are simply too many bills in circulation. They represent more wealth, goods, and valuables than there is gold in the world. Britain stopped using the gold standard in 1931, and the United States stopped 40 years later. Today, governments keep track of how many goods and resources there are in a country and circulate enough money to represent those goods and resources. Depending on how many goods and resources the country produces and how successful its businesses are, the value of a country's money can rise and fall compared to other countries' currencies. This is called a **floating currency** system.

Keeping Money Real

Everyone agrees that only the government can make money because the government keeps track of the actual goods and resources that the money represents. But what if people try to produce money on their own? Fake money, called **counterfeit**, isn't worth anything because it isn't backed up by goods or resources. Banks, stores, restaurants, and companies will not let you use counterfeit money. Worse, having counterfeit money in circulation hurts the value of everyone's money—if there is fake money around, how do you know if your money is real or not?

Try This!

Get a dollar bill and pieces of paper, construction paper, cloth, and tissue paper. Cut the pieces of paper and cloth so that they are the same size and shape as the dollar bill. Now close your eyes and try to tell the real bill from the fake bills by touch.

Cashiers and bank tellers who handle a lot of money can tell a real bill from a counterfeit just by feeling it. Could you do the same thing?



In order to defeat counterfeiters, most countries make their money using special, hard-to-copy tricks. Bills are printed on paper made with a secret formula. U.S. dollars are made of a mixture of about one-quarter linen and three-quarters cotton, with some red and blue fibers sprinkled throughout. However, the government keeps the exact formula a secret, the way Coca-Cola™ protects the secret recipe for their famous soda pop. A special thread below the portrait glows in ultraviolet, or “black,” light. Banks and some stores use special pens with ink that turns from black to yellow on real money, but stays black on fake money.

The pictures and print on bills are designed to prevent easy copying. The portrait is large and detailed, placed slightly off-center, and made of very thin dashed lines. The patterns on the bill are small and complicated. Each bill has a serial number that shows when and where the bill was printed.

In addition, many bills also have colored inks, magnetic inks, and inks that change color depending on the angle you look at them. Some bills have **holograms** or **watermarks** that produce an image only when you hold the bill up to the light.

Invisible Money: Checks and Credit Cards

Most adults have checking accounts. Banks keep track of how much money a person has saved, and the person writes checks, or official notes, that stand for a certain amount. Checks can represent a large amount of money on one piece of paper. Many checking accounts also have debit cards that people can use to take cash from their accounts at ATMs or pay for things at shops and restaurants.

Credit cards work like debit cards and checking accounts, except that instead of saving money in the bank, a person borrows the money from the bank. People use credit cards to buy items that cost more than they have in the bank. Then, they have to pay the money back, plus a fee called *interest*. If someone takes a long time to pay the money back, the interest gets bigger.

Automatic teller machines, or ATMs, allow people to get cash from their accounts at any time.



Debit and credit cards

Debit and credit cards are made of durable plastic. The person's name and an individual number are stamped onto one side, along with the name of the bank where the account is. A magnetic strip on the top has special **encoded** information about the person's bank account. When the card is swiped through a card-reading machine, the machine electronically calls the bank to make sure that the account has enough money in it. If the money is there, the price is taken from the person's account and moved to the store's, restaurant's, or company's account. It is easier to carry around one piece of plastic than it is to carry many bills. Plus, since cards have your name and information on them, the money is harder to steal than bills are.

However, credit cards can be dangerous because people forget that they must pay back the money they used to buy objects. Many people who use credit cards irresponsibly owe so much money to the banks that the banks take back, or repossess, the things the person bought.

Plastic cards are less visible than money, but they still buy the same goods. Our invisible money allows us to trade with people around the world. With the help of catalogs and the Internet, you can use a credit card to buy goods from a person or company in another country. Your money is automatically changed into a currency the other person can use.



Shopping online with a credit card can instantly send money across oceans.

Conclusion

Three thousand years ago, people bartered one good for another. Today, people trade with each other using bills, coins, and even “invisible” money. What sort of money do you think we’ll have in another three thousand years?



At a stock market, people buy and sell stock, or pieces of companies. Stock costs more or less depending on the value of the company. But until the stock is sold, the money in it is not real.

Explore More

On the Internet

- A. In the address window, type *www.google.com*.
- B. Think of a topic you'd like to learn more about, such as currency or the stock market, and type it into the search window. You might be able to find more fun and interesting sites by including the phrase "for kids."
- C. Read the colored links. Click on one that looks interesting.
- D. When you want to explore new links, use the back arrow at the top left.

At Home

Ask your parents to help you open a checking or savings account at the bank. The bank will hold your money and send you a monthly statement telling you how much you have and how much you've spent. A checking account lets you take out money any time you like. A savings account gives you interest on your money, so you will actually earn money without doing a thing!

Glossary

barter	directly trade one or some goods for other goods (p. 5)
cash	Chinese word for ancient coins; common term for paper money (p. 9)
circulation	currently being used and passed from person to person (p. 13)
counterfeit	fake money (p. 15)
currency	objects used to represent the value of goods or resources (p. 6)
denomination	the specific value of, or the number printed on, a piece of money (p. 9)
electrum	natural metal made of a mixture of gold and silver (p. 8)
encoded	written in a special code (p. 18)
face value	the denomination of currency as written on the front (p. 13)
floating currency	not attached to the gold standard (p. 14)
holograms	special pictures that look three-dimensional (p. 16)
minted	created, as in coins (p. 8)
watermarks	special pictures that show up only when held to the light (p. 16)