Money—What Is It Good For?

OVERVIEW:
In this lesson, we will look at the concept of money. Students will develop their own definition of money, which we will then compare and contrast with official economic definitions of money. Students will think about what it means to “store value” and act as a “medium of exchange.” Based on this definition, students will consider whether several historical examples of “money” fit the official economic definition. Finally, discussion will revolve around the article “Kiva: Improving People’s Lives One Small Loan at a Time.”

NBEA STANDARD(S):
- Economics, IV. Markets and Prices

RELATED ARTICLES:
- “Will Facebook’s Libra Legitimize Cryptocurrency?”
- “Why It Pays to Save: Knowing the Time Value of Money”
- “The National Debt: What’s Behind All Those Zeros?”
- “The ‘Bitcoin Boy’ and Other News from the Land of Digital Currency”
- “That Crazy Cryptocurrency”
- “Economic News from Davos, Switzerland: How Much Does that Big Mac Cost?”
Objectives/Purposes: The purpose of this lesson is for students to understand how economists think about money.

- Students will be able to explain money as a unit of exchange.
- Students will be able to explain money as a unit of account.
- Students will be able to explain money as a store of value.

Other Resources/Materials:

For Teachers:

- Internet Access (Outside of the Classroom)
- Printer/Copier
- Access to Chalkboard/Whiteboard
- Chart Paper
- Markers

Activity:

The lesson is divided into five parts: (1) Introduction, (2) Class Discussion, (3) Exploration Activity, (4) Guided Reading, and finally (5) Closing

1. Introduction (10-15 mins)

Begin the lesson by asking students a series of short questions: (1) How many of you are buying lunch today? After students raise their hands, ask a follow-up question, (2) How would you pay for lunch if you had no money? Again, let students respond. Then ask one final question, “How would you buy lunch if there was no such thing as money?” Encourage students to think about the purpose of money—and the alternative of a barter system. Ask students, “Why is money better than bartering?”

Next, break students into small groups of 3-5 students. Give each group a piece of chart paper and a marker. Give the groups about 5 minutes to create their own definition of “money.” The definition can be written out in complete sentences or it can be a bullet-list. Once time is up, have each group share their definition with the class.

2. Class Discussion (5-10 mins)
After detailing students’ definitions, shift the conversation to formal economic definitions of money. The formal economic definition has 3 parts

1. Unit of exchange

2. Unit of account

3. Store of value

Money is a unit of exchange insofar as you can exchange it for goods and services. Money makes it easier for transactions to occur. Instead of bartering, you can exchange money for the goods and services you would like to have.

Money is a unit of account insofar as it is a common measure. When two people want to trade their goods or services, money is a common standard. Both parties know what $20 is worth. What if we used something else instead? What about something like a painting? Could I use hand-made paintings as a unit of account. How many paintings is a sandwich worth? A car? We know the painting is valuable. But how valuable? It isn’t an agreed upon standard. (Note: There are many agreed upon standards, e.g. dollars, pounds, euros, etc.)

Finally, money must be able to store its value. The dollar bill you hold today needs to be worth a dollar tomorrow. What if we used sand dollars instead of pennies and quarters? Would the sand dollars hold their value? What is a dollar bill made out of? Why doesn’t it fall apart as easily as paper, e.g.?

3. Exploration Activity (10 mins)

After introducing students to the formal definition of money, provide them with a copy of the included handout. In this activity, students will look at various historical examples of currency, and decide whether each one fits the economic definition of “money.”

After students finish the worksheet, go over each of the answers as a class.

4. Guided Reading (5-10 mins)

Next, have students read through the article, “Kiva: Improving People’s Lives One Small Loan at a Time.” As students read, encourage them to think about the role of “money” in lending. Could the same thing be accomplished through barter? Why or why not?
Have students briefly summarize the reading. Use the question above to start a short dialogue about money and economic efficiency (i.e. money makes it easier for individuals to acquire the goods and services that they want).

5. Closing (1-10 mins)

With the remaining time, reiterate the formal definition of money. Money is a unit of exchange, a unit of account, and a store of value. If there is time, encourage students to think of alternative forms of money. For example, time based money. Instead of being paid an hourly wage, everyone earns “1 hour” for each hour they work. It doesn’t matter if you work at a local restaurant or an international law firm; everyone is paid 1 hour for 1 hour’s worth of work. What do students think about this idea? Do they like it? Why or why not? Are there problems that could arise?

Practice Outside of the Classroom:

Have students do some research on alternative forms of currency. If students are interested in time-based money, have them look up Ithaca Hours. Have each student bring back one example of “currency,” whether digital, physical, or historical. Also, encourage students to read the following Wharton Global Youth Program stories about money:

- “Why It Pays to Save: Knowing the Time Value of Money”
- “Where Money Comes From: How Collecting Coins Helps Trim the National Debt”
- A New Kind of Money: Bitcoin Basics

What Worked and What I Would Do Differently Next Time:
After reading the article, I asked my students what they thought of microfinance loans. Overwhelmingly, students thought they were a good idea. Next, I asked students if micro-finance loans would work in poor, American communities. Resoundingly, the students said, “No.” This led to a great discussion about the role of trust in different economies, and how cultural expectations affect economic transactions.