高等院校金融类教材

国际金融英语

主编　冯肇伯　副主编　陈抗风

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中国金融教材工作委员会

CONTENTS

LESSON ONE

TEXT

THE VALUE OF MONEY

1 In the beginning there was no money, the earliest families were largely self-sufficient. Each family produced all it consumed and consumed all it produced, so there was little need for exchange. Without exchange, there was no need for money. When specialization first emerged, perhaps as hunting and farming, hunters and farmers no doubt had little difficulty finding mutually beneficial trades.

2 As the economy developed, however, greater specialization in the division of labor increased the difficulty of finding goods that each trader wanted to exchange. Rather than just two possible types of producers, there were, say, a hundred types of producers, ranging from potters to shoe makers. The potter in need of new shoes might have trouble finding a shoemaker in need of pots. Barter depends on a double coincidence of wants, which occurs only when traders are willing to exchange shoes for the pots offered by the cobbler. Not only might this double coincidence of wants be hard to find, but after the two traders connect

they would also need to agree upon a rate of exchange—that is, how many pots should be exchanged for a pair of shoes? Increased specialization made the barter system of exchange more time-consuming and cumbersome.

3 When only two goods are produced, only one exchange rate must be determined, but as the number of goods produced in the economy increases, the number of exchange rates grows sharply. Negotiating the exchange rates among commodities is complicated in a barter economy because there is no common measure of value. Sometimes the differences in the value of the products made barter difficult.

4 We have already discussed the movement from self-sufficiency to more specialized production requiring barter. We saw that the greater the degree of specialization in the economy, the more difficult it became to discover a double coincidence of wants and then to negotiate mutually beneficial exchanges. We should note that nobody actually recorded the emergence of money. Thus, we can only speculate about how money first came into use. Through repeated exchanges, traders may have found that there were certain goods for which there was always a ready market. If a trader could not find a desired match or did not need goods for immediate consumption, some good with a ready market could be accepted instead. So traders began to accept certain goods not for immediate consumption, but because these goods would be acceptable to others and therefore could be traded later. For example, corn might become accepted because traders knew corn was

always in demand. As one good became generally acceptable in return for all other goods, that good began to function as money. As we will see, anything that is used as money serves three important functions: a medium of exchange, a standard of value, and a store of wealth.

Medium of Exchange

5 If a community, by luck or by design, can find one commodity that everyone accepts in exchange for whatever is sold, traders can save much time, disappointment, and sheer aggravation. Separating the sale of one good from the purchase of another requires something acceptable to all parties involved in the transaction. Suppose corn plays this role, a role that clearly goes beyond its usual function as food. We call corn a medium of exchange because corn is accepted in exchange by all buyers and sellers. Whether or not they want corn for its own uses. A medium of exchange is anything that is generally accepted in return for goods and services sold. Corn is no longer an end but a means to an end. The end may be shoes, meat, pots, whatever. It is accepted because it can be readily exchanged for other goods. Corn can be used to purchase whatever is desired whenever it is desired. Because in this example corn both is a commodity and serves as money we call corn a commodity money. The earliest money was commodity money.

Standard of Value

6 As one commodity, such as corn, became widely accepted, the prices of all goods came to be quoted in terms of corn. The chosen commodity became a common standard of value. The price of shoes or pots could be expressed in bushels of corn. Thus, not only does corn serve as medium of exchange but it also becomes a yardstick for measuring the value of all goods and services. Rather than having to quote the rate of exchange for each good in terms of every other good, as was the case in the barter economy, the price of everything could be measured in terms of corn. For example, if a pair of shoes sells for two bushels of corn and a five-gallon pot sells for one bushel of corn, then one pair of shoes exchanges for two five-gallon pots.

Store of Wealth

7 Because people often do not want to make purchases at the same time they sell an item, the purchasing power acquired through sales must somehow be preserved. Money serves as a store of wealth by retaining purchasing power over time. The cobbler exchanges shoes for corn in the belief that other suppliers will accept corn in exchange for whatever the cobbler demands later. Corn represents a way of deferring purchasing power yet conserving that power until consumption is desired. The better money is at preserving purchasing power, the better it serves as a store of wealth.

8 When we think of someone selling one good in order to be able to buy a second good, then the exchange of the first good for corn is only half of the exchange. Goods are first exchanged for commodity money, corn; corn is later exchanged for other goods. Breaking the exchange in two is much more convenient than trying to work out a barter arrangement, with its frequent delays and disappointments. With money, the buyers and sellers need to have only one good in common instead of two.

9 Any commodity that acquires a high degree of acceptability throughout the economy thereby becomes money. Consider some commodities used as money over the centuries. Cattle served as money, first for the Greeks and then for the Romans. In fact the word pecuniary comes from the Latin word pecus, meaning "cattle".

10 Whatever serves as a medium of exchange is called money, no matter how it first came to serve as a medium of exchange, and no matter why it continues to serve this function. So long as there is something that sellers willingly accept in exchange for whatever they sell—rather than looking around for goods they in particular would like to consume—that article is money, whether it is animal, vegetable, or mineral. The only test for money is that it be widely accepted in return for goods and services. Some kinds of money perform this function well, others not so well. But good or bad, it is all money.

11 Early banks were little more than money changers, exchanging coins and bullion(uncoined gold or silver bars)from one form to another for a fee. Money was counted on a banque, the French word for "bench". Banking, as the term is understood today, dates back to London goldsmiths of the seventeenth century. Because goldsmiths had a safe in which to store gold, others in the community came to rely on goldsmiths to hold their money and other valuables for safekeeping. The goldsmith found that when money was held for many customers, deposits and withdrawals tended to balance out, so a pool of deposits remained in the safe at fairly constant level. Loans could be made from this pool of idle cash, and the goldsmith could thus earn interest.

12 The system of keeping one's money on deposit with the goldsmith was safer than leaving money where it could be easily stolen, but it was a bit of a nuisance to have to visit the goldsmith each time money was needed. For example, the farmer would visit the goldsmith. Thus, money took a round trip from goldsmith to farmer to horse trader and back to goldsmith. Because depositors grew tired of going to the goldsmith every time they needed to make a purchase, the practice developed whereby a purchaser, such as the farmer, wrote the goldsmith instructions to pay the horse trader so much from the farmer's account. The payment amounted to having the goldsmith move gold from one stack (the farmer's) to another (the horse trader's), these written instructions to the goldsmith were the first checks.

13 By combining the idea of cash loans with checking, the goldsmith soon discovered how to make loans by check. The check was a claim against the goldsmith, but the borrower's promise to repay the loan became the goldsmith's asset. The goldsmith could extend a loan by creating an account against which the borrower could write checks. Goldsmiths, or banks, were able to "create money"—that is, create claims against themselves that were generally accepted as a means of payment—as a medium of exchange. This money, though based only on an entry in the goldsmith's ledger, was accepted because of the public's confidence that these claims would be honored.

14 The total claims against the bank consisted of customer deposits plus deposits created through loans. Because these claims against the bank exceeded the bank's gold and other reserves, this was the first fractional reserve banking system, a system in which only a portion, or fraction, of deposits were backed up by reserves. The reserve ratio measures reserves as a proportion of total deposits. For example, if the goldsmith had reserves of $ 10, 000, the reserve ratio of deposit of $ 20, 000 would be 50 percent.

15 Another way a bank could create claims against itself was to issue bank notes. In London, goldsmith bankers introduced bank notes about the same as they introduced checks. Bank notes were pieces of paper that promised to pay the bearer a specific amount in gold when presented to the issuing bank for redemption. Whereas checks could be redeemed only by the individual to

whom the deposit was directed, notes could be redeemed by anyone who held them. Notes redeemable for gold or another valuable commodity are called fiduciary money.

16 The amount of fiduciary money issued depended on the bank's estimate of the proportion of notes that would be redeemed for gold. The greater the redemption rate, the fewer notes could be issued based on a given amount of gold reserves. Initially, these promises to pay in gold were issued by private individuals or banks, but over time governments developed a larger role in their printing and circulation. The tendency to redeem notes for gold depended on the note holder's confidence in the bank's willingness to do so upon request.

17 Once fiduciary money became widely accepted, it was perhaps inevitable that governments would begin issuing fiat money, which consists of notes that drive their status as money by power of the state, or fiat, Fiat money is money because the government says it is money. Fiat money is not redeemable for anything other than more fiat money; it is not backed by a promise to pay something of intrinsic value. You can think of fiat money as mere paper money. It is acceptable not because it is intrinsically useful or valuable but because the government requires that it be accepted in payment. Fiat money is declared legal tender by the government, meaning that creditors must accept it as payment for debts.

18 Why does money have value? As we have seen, various

commodities served as the earliest moneys. Commodities such as corn or tobacco had value in use even if for some reason they became less acceptable in exchange. The commodity feature of the money bolstered confidence in its acceptability, when paper money came into use. Acceptability was initially fostered by the promise to redeem it for gold or silver. But since most paper money throughout the world is now fiat money, there is no promise of redemption.

19 So why can a piece of paper bearing the image of Alexander Hamilton and a 10 in each corner be exchanged for a large pepperoni pizza or anything else selling for $ 10. People accept these pieces of paper because they believe others will do so.

20 The value of money is reflected by its purchasing power—the rate at which money is exchanged for goods and services. The higher the price level is, the fewer goods and services can be purchased with each dollar, so the less each dollar is worth. The purchasing power of each dollar can be compared over time by accounting for changes in the price level. To measure the purchasing power of the dollar in a particular year, first compute the price index for that year, then divide 100 by that price index.

Words and Expressions

1. specialization of labor 劳动专业化
2. barter n. 易货，易货贸易
3. double coincidence of wants 双边一致的交易欲望