

PART II

- 1) The need and purpose of money
- 2) Assets with monetary labels
- 3) Understanding Personal Cash flow

1) The need and purpose of money

money... currency... credit...



Do this!

Do that!



1) The need and purpose of money

Let's imagine a moneyless society [aka 'barter']



1) The need and purpose of money

The trust issue:



1) The need and purpose of money

Conditions for barter:

- Double coincidence of wants
- Declining marginal utility

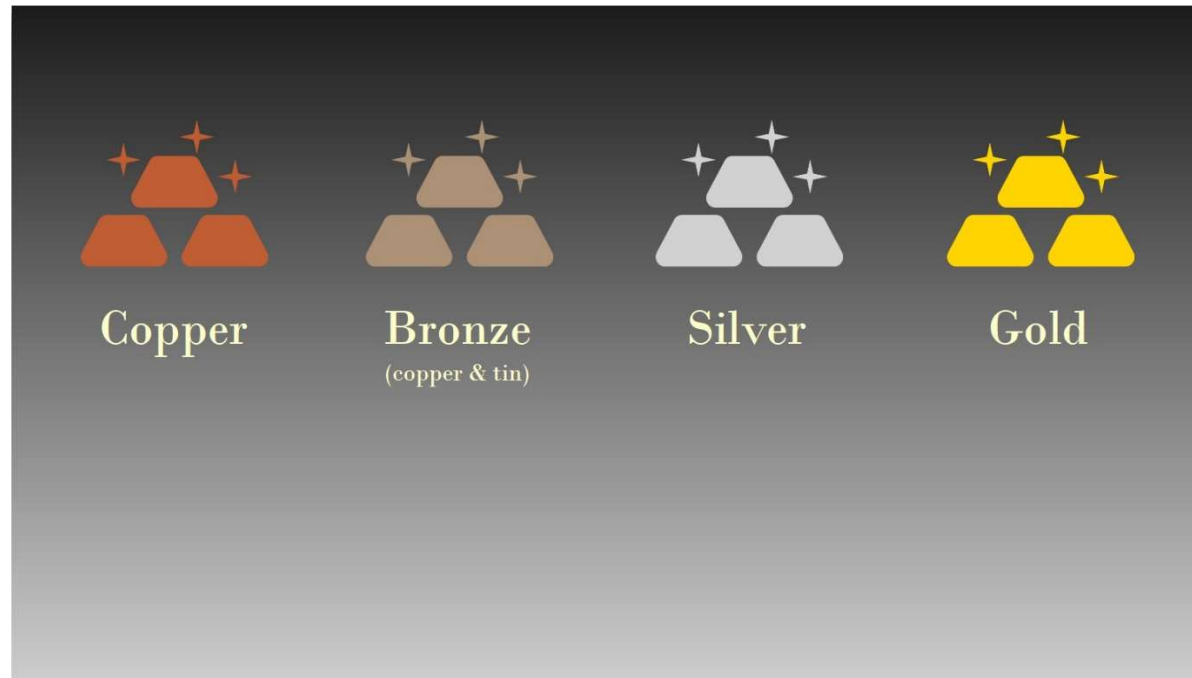
[one party gives away something of low value in exchange for something of higher value]

- Issue of trust

What can be acceptable for exchange?

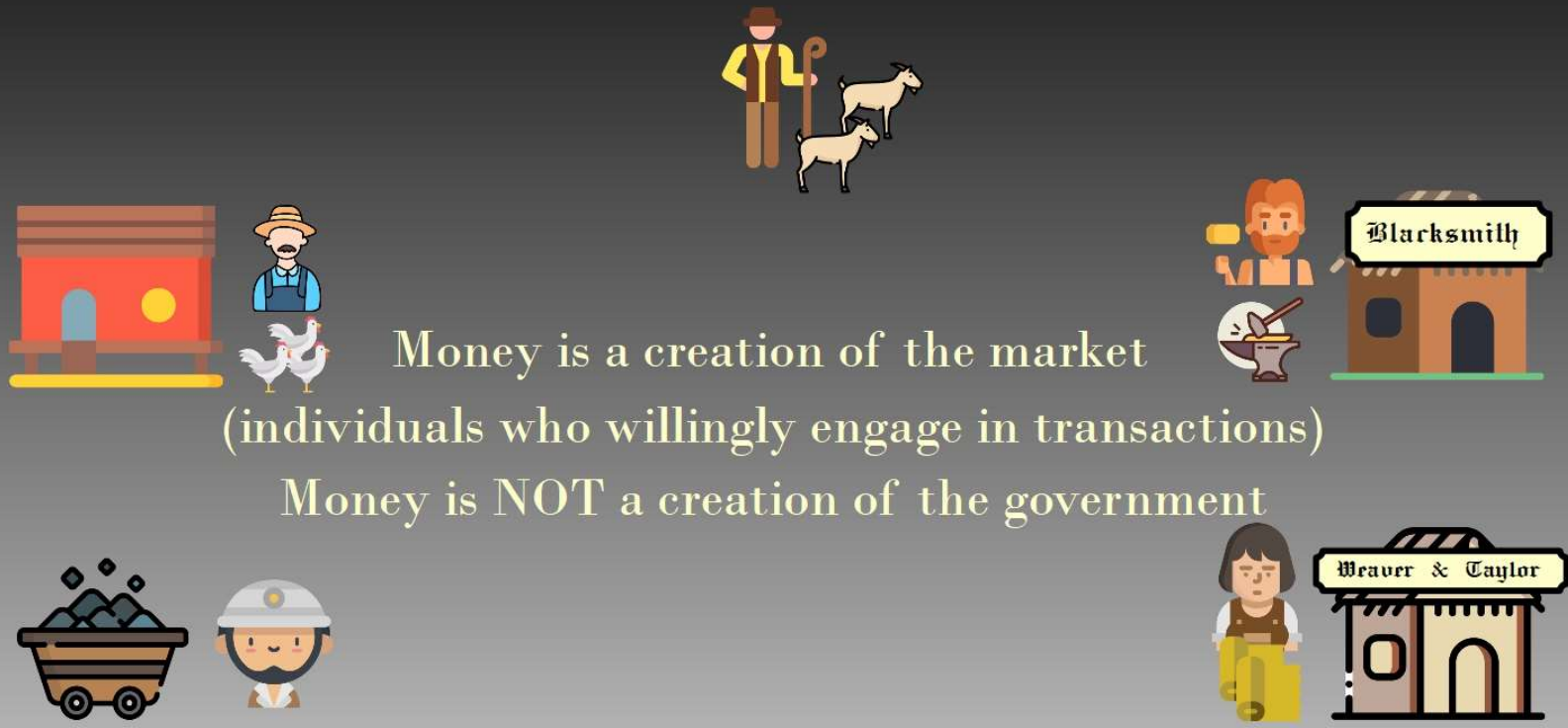
- Gas? No
- Liquid? No
- Solid? Yes... but scarce, not destroyable, no burning, no dissolving in water, no rusting, difficult to extract and purify, desirable...

1) The need and purpose of money



- Copper → Abundant and common → low value transactions
- Bronze [copper-tin alloy] → similar, but more durable
- Silver → Relatively scarce → everyday transactions
- Gold → very rare → large transactions, wealth preservation, transfer to future generations

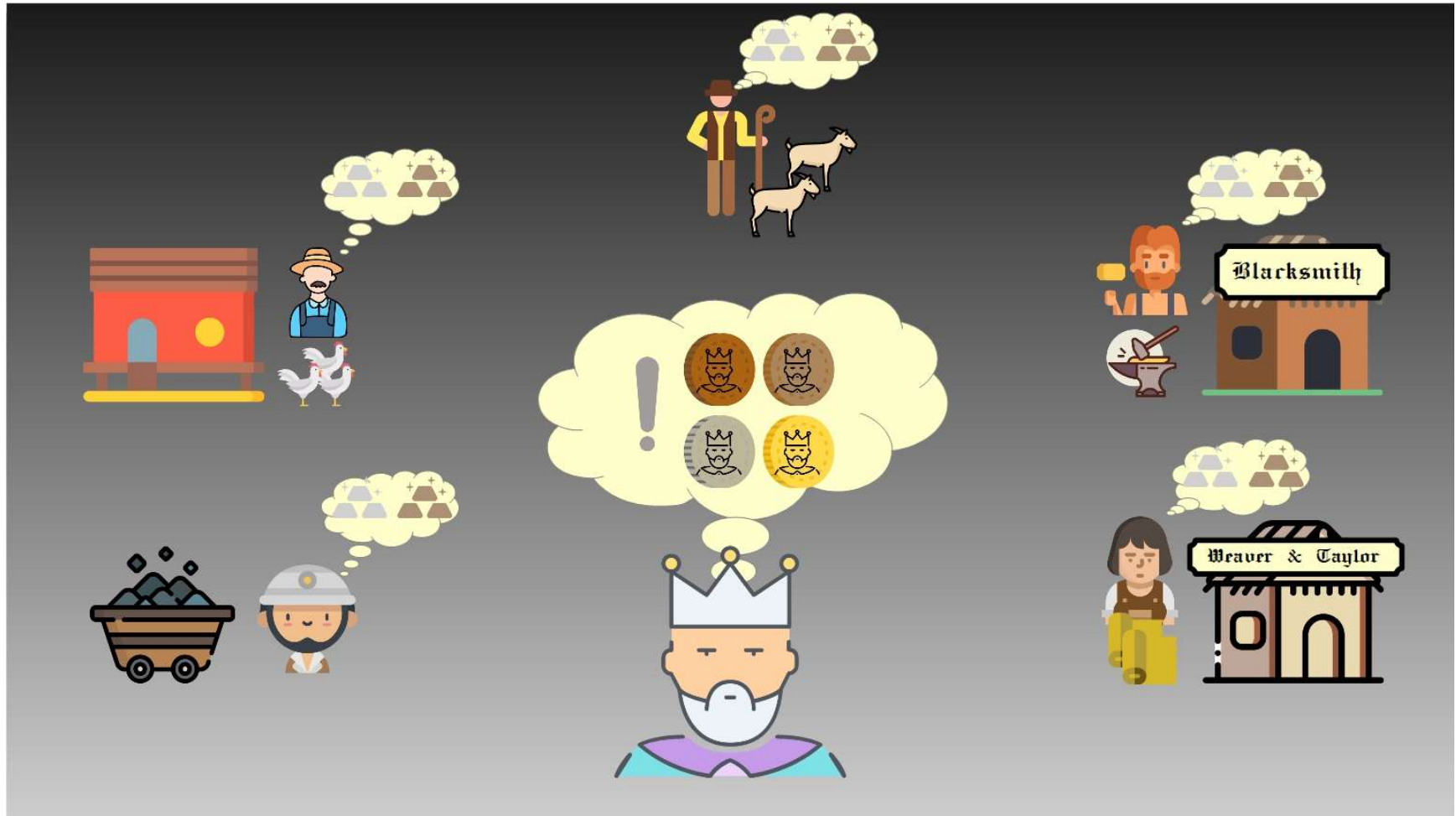
1) The need and purpose of money



Money is a creation of the market
(individuals who willingly engage in transactions)
Money is NOT a creation of the government

The image features several icons: a farmer with a staff and sheep, a blacksmith with a sign that says 'Blacksmith', a miner with a sign that says 'Weaver & Taylor', a red building with a yellow sun, a man with a hat and chickens, a man with a beard and a hammer, a man with a beard and a hard hat, and a woman with a sign that says 'Weaver & Taylor'.

1) The need and purpose of money



1) The need and purpose of money



Double Coincidence of Wants...



Declining Marginal Utility...



Mutual Trust...

1) The need and purpose of money

Metal money do not have a value, their own nature is the value, determined by:

- scarcity;
- amount of labor required to extract and purify.

The value of a transaction is determined by:

- The metal used for transaction
- The quantity of the metal exchanged

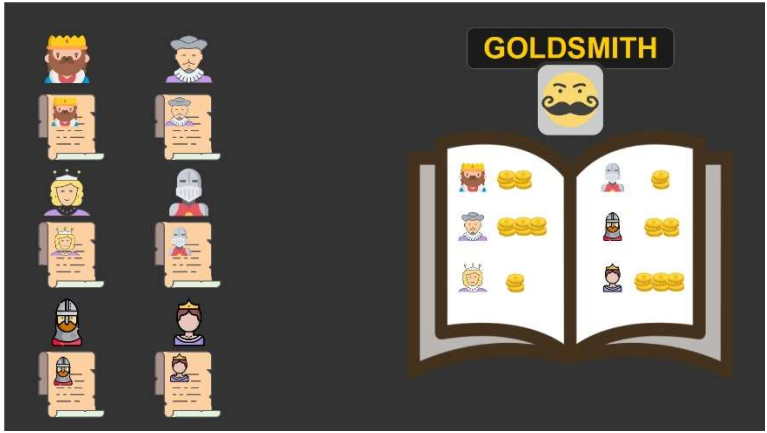
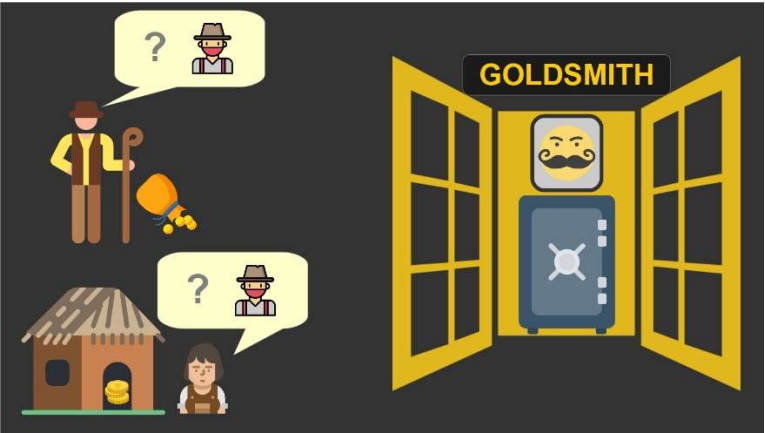
Genesis 23:16:

Abraham agreed to Ephron's terms and weighed out for him the price he had named in the hearing of the Hittites: four hundred shekels of silver, according to the weight current among the merchants.

* Four hundred shekels ~ 200 oz. silver ~ today's price \$25/oz. ~ \$5,000

Price of Jesus's betrayal – thirty pieces of silver

1) The need and purpose of money



1) The need and purpose of money



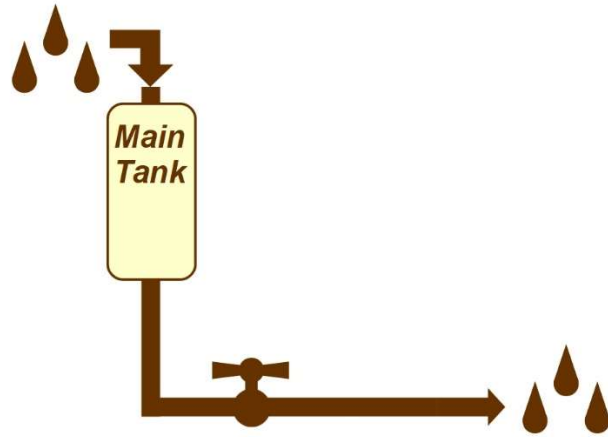
2) Assets with monetary labels

- Money → monetary metal or certificate of deposit
-

- Currency → aka ‘fiat money’, a monetary medium of exchange created by Central Banks, by government decree, as a debt instrument [*In the US: Federal Reserve*]
- Credit → currencies created by commercial banks using credit lending [fractional reserve mechanism]
- Derivative financial instruments → stocks, bonds, mutual funds, ETFs, etc.

3) Understanding Personal Cash Flow

Inflow \rightarrow 5 gal /hr



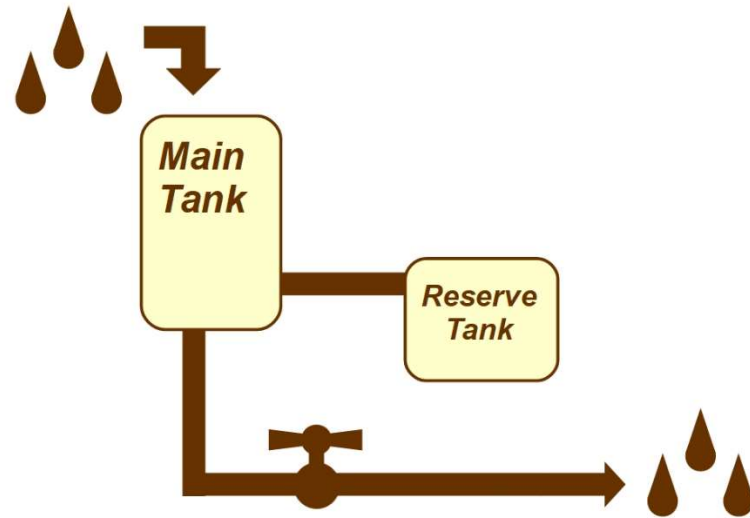
What happens if the valve is set to 5 gal/hr?

What about 6 gal/hr?

What about 4 gal/hr?

3) Understanding Personal Cash Flow

Inflow \rightarrow 5 gal/hr



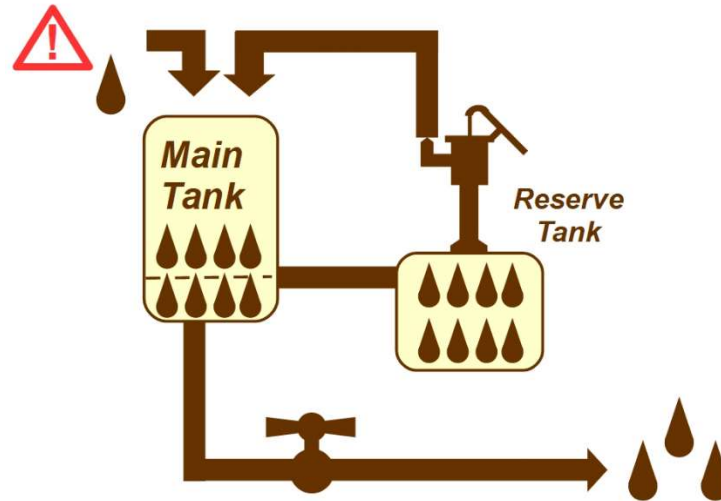
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3) Understanding Personal Cash Flow

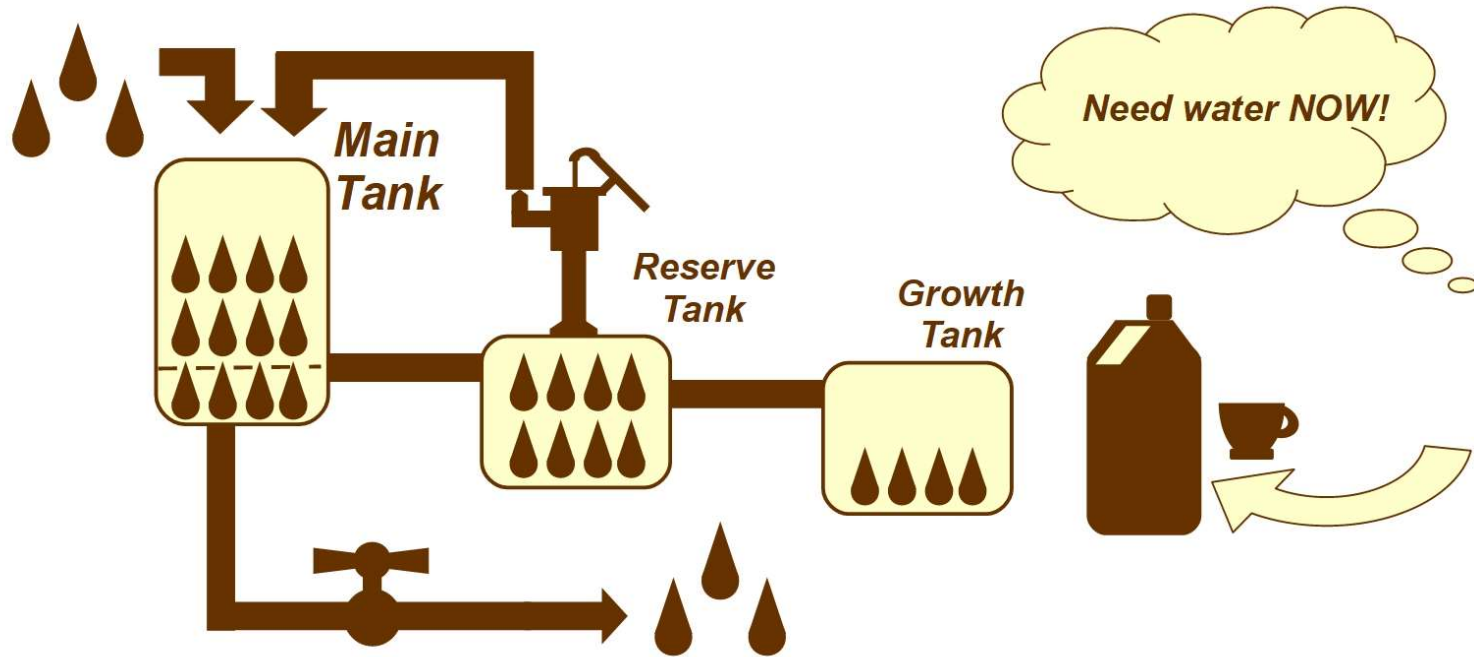
What happens if there is no inflow, but we add a pump that brings water into the main tank?



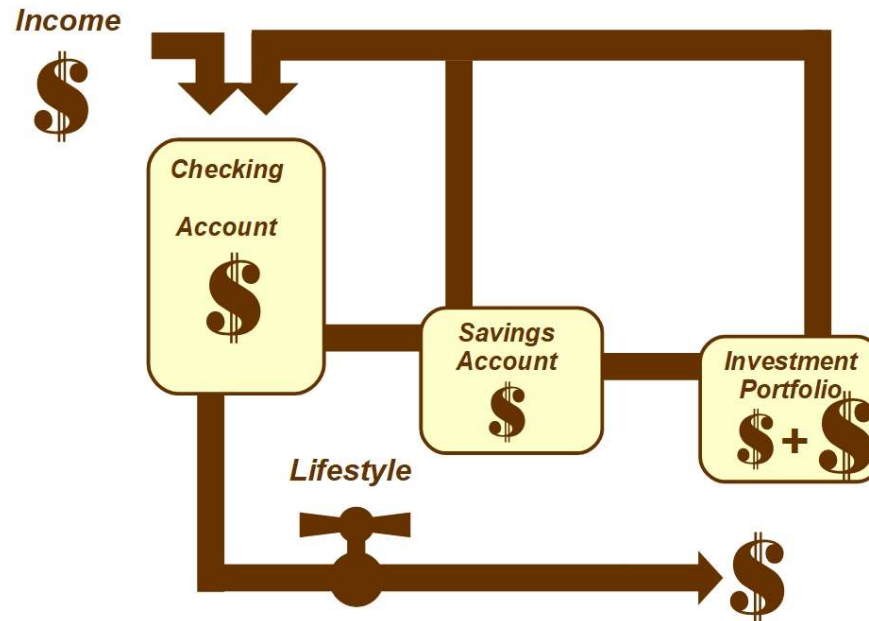
3) Understanding Personal Cash Flow

What happens if water keeps flowing in, and there is someone who asks for water now?

For one gallon given now, you will receive in the future one gallon and a cup.



3) Understanding Personal Cash Flow



- Purpose of Income → to cover living expenses and maintain a lifestyle
- Purpose of Savings → Protection [*3-12 months of expenses*]
- Purpose of Investments → Growth

HOMEWORK

- How does your cash flow look?
- What is your income?
- What are your expenses – necessities and disposable?
- Do you use credit cards to finance your lifestyle?