

# **“The Role of Money in the World Economy: past, present and future”**

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The subject of our research is **“The Role of Money in the World Economy: past, present and future”**. It touches different aspects connected with the history of money and its role in the development of economy, changes in the form of money and what we can expect in the future.

We started researching this topic because we consider it urgent as there are a lot of discussions of possibility to substitute all paper money by electronic one, creating electronic money market.

So, **the object** of our research is money at different stages of its development.

**The subject** of the research is the impact of different types of money on the economy and various spheres of people' lives.

**The main purpose** of our research is to understand how money affects the economy and lives of the people.

**The aims of the research** are to answer the following questions:

- a) how it all began and evolved to the present day;
- b) what it has enabled humans to achieve;
- c) why so many people in the world today have problems with using electronic money and suffer from the way it works;
- d) what the future of monetary system is.

**The hypotheses:** the emergence of electronic money and other new types of money is inevitable.

**Methodology of the Study:** this paper depends on analytical method at determining the impact of the development of money in different areas related directly or indirectly to the development of the economy. In this paper we focus our effort on analyzing the previous literature review related to this subject to make better understanding of all aspects of this subject depending on a judgment approach which represents our opinion in this field to obtain the best conclusions about the possibility of using only one form of money in the future- electronic.

*Chapter 1* is devoted to the History of Money and role of money in the economic development.

The use of money is as old as the human civilization. Money is basically a method of exchange, and coins and notes are just items of exchange. But money was not always the same form as the money today, and is still developing.

Over the centuries, money has reflected changes in politics and government, in economic life and power, in science and technology, in religious and other cultural beliefs, in family and neighborhood life, and in other aspects of how we live. And it has not just reflected those changes; it has also helped to bring them about.

If we know something about how that has happened can help us see how the role of money in people's lives may continue to change. For young people growing up in the early 21st century this could be really important.

According to the authors of “Applied economics” *barter system* was prevalent in the earliest stages of man as a commercial animal. Even today, in some of the interior parts of African countries and even in backward regions of India, especially in the non-monetized subsistence sector of some rural and areas, barter exchange in some degree is in operation.

There is no use of money or any medium of exchange in a barter economy. *Longman dictionary* on economics and business defines *Barter* as «direct exchange of goods exchanged against goods». For example, corn may be exchanged for ox hides, house for horses, pigs for poultry, lemons for oranges, baskets for bananas,

shoes for shirts and so on. In the barter system, thus, one has to give some kind of goods to get some other kind of goods. Various items have been used by different societies at different times. Aztecs used cacao beans. Norwegians once used butter. The early U.S. colonists used tobacco leaves and animal hides. The people of Paraguay used snails. Roman soldiers were paid a "samarium" of salt. On the island of Nauru, the islanders used rats. Human slaves have also been used as currency around the world. In the 16th century, the average exchange value of a slave was 8000 pounds of sugar.

*The Bank of Sweden issued the first paper money in Europe in 1661, though this was also a temporary measure. In 1694 the Bank of England was founded and began to issue promissory notes, originally handwritten but later printed. To make travelling with gold less dangerous, goldsmiths, or people who made jewelry and other items out of gold, came up with an idea. The goldsmiths started writing out notes on pieces of paper that said the person who had the note could trade the note in for gold. These promissory notes were the beginning of paper money in Europe.*

Economic development is generally believed to be dependent on the growth of real factors such as capital accumulation, technological progress, increase in quality, skills of labor force and money. Not only is money an important factor without which modern complex economic organization is impossible, but it is also an important factor for promoting economic development. Let us consider the importance of money in the process of economic development.

Money performs several functions. In "The Applied Economics" we read that money serves as a *standard* of value in which other values are measured. Money is *a store* of value, that is, the means in which wealth can be held. It acts as a standard for deferred payments. However, the most important function of money which distinguishes it from other goods is that it serves as *a medium of exchange*. That is, money is a means of payment for goods and services. It is this use of money that distinguishes a monetary economy from a barter economy. A monetary

economy is one in which goods are sold for money and money is used to buy goods.

According to the economists, the most important roles of money are *to promote Productivity and Economic Growth as well as to Promote Investment*. To properly fulfill its functions in a modern society money should have its basic characteristics: portability or transportability, divisibility, durability, stability, recognisability and acceptability.

And finally, the monetary item must be difficult to counterfeit.

*CHAPTER 2* describes electronic money today and in the future.

The idea of having electronic money was originally developed by an American mathematician David Chaum in the 70s of the XX century. At that time the electronic money was viewed mostly as a means of having pre-paid cards with the information about the amount of transferred money stored there through various technical ways.

At the present moment it is one of the most popular tools of payment for the Purchases online and related fields.

*Different encyclopedias and Economics dictionaries describe* electronic money as e-money, electronic cash, electronic currency, digital money, digital cash **or** digital currency which is exchanged only electronically. Typically, this involves use of computer networks, the internet and digital stored value systems. Electronic Funds Transfer (EFT) and direct deposit are examples of electronic money. Also, it is a collective term for financial cryptography and technologies that is enabling it.

In the context of the present research the following peculiarities of electronic money are the key ones:

*accessibility, mobility, access, simplicity, speed, low transaction cost.*

All these features of electronic money give it *advantages* to compete with such widely spread products as credit cards and Internet banking.

Nowadays electronic money takes up its own place in the world of

economics, where its use is economically effective.

*Types of electronic money.*

The existing systems of electronic money are generally divided into two groups:

- *electronic money based on cards;*
- *electronic money based on the Internet.*

In Russia people often use various electronic wallets. The most popular system at the moment are Yandex Money, Qiwi and Webmoney. Most economists agree that electronic money has some important *advantages*. Among them are: consumer convenience, low fees for transactions, payer anonymity, security, record of transactions. But the emission of electronic money is guaranteed only by the issuer, the state does not give any guarantees.

Having done this research we came to some conclusions.

1. Money fulfills different functions, the most important of which are a *standard of value, a store of value and medium of exchange*.
2. With the development of technology, new types of money are emerging. Such money allows you to pay on the Internet, pay a credit card, if you have money in your bank account.
3. Finally, we can say that due to its advantages, electronic money, as well as crypto-currencies, will be spreading more and more.
4. Mankind cannot completely abandon the usual money unless the electronic money systems become more reliable, understandable and friendly to users.

To conclude, we can say that our hypotheses cannot be proved at the moment: the emergence of electronic money and other new types of money is possible, beneficial, but not inevitable.

We consider our paper to be of practical importance as it can be used by other students in Economics class, can help understand the subject better and enrich their topical vocabulary.