

MONEY AND MONEY SUBSTITUTES

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All of us know that a word of "money" means. But not everyone knows why money uses.

Where the free exchange of goods and services is unknown, money is not wanted.

In the present stage of economic development, the occasions when direct exchange is both possible and actually effected have already become very exceptional.

In the first place, money is especially well adapted to constitute the substance of a generic obligation. Whereas the fungibility of nearly all other economic goods is more or less circumscribed and is often only a fiction based on an artificial commercial terminology, which of money is almost unlimited. Only that of shares and bonds can be compared with it.

We may give the name commodity money to that sort of money that is at the same time a commercial commodity; and the name fiat money to money that comprises things with a special legal qualification. A third category may be called credit money, this being that sort of money which constitutes a claim against any physical or legal person.

Those who need money are willing to pay for it and those who lend money expect to be compensated. The interest rate is the cost of money.

Money would still be unnecessary if the means of production were socialized, the control of production and the distribution of the finished product were in the hands of a central body. But it cannot be in a modern society.

The money market is a market in which the cash requirements of market participants who are long cash are met along with the requirements of those that are short cash.

There are three types of money market funds: (1) general money market funds, which invest in wide variety of short-term debt products; (2) U.S. government short-term funds, which invest only in U.S. Treasury bills or U.S. government agencies; and (3) short-term municipal funds.

The largest players in the global money markets are financial institutions — namely depository institutions (i.e., commercial banks, thrifts, and credit unions), insurance companies, and investment banks.

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