



THEME 5

ECONOMIC GROWTH

AND ECONOMIC CYCLE

OVERVIEW THEME 5

ECONOMIC GROWTH AND ECONOMIC CYCLE

- MONEY AND CAPITAL MARKETS
- CAUSES AND CONSEQUENCES OF INFLATION
- LABOUR MARKET POLICIES
- ECONOMIC GROWTH (long-term)
- ECONOMIC CYCLE (short-term)
- FISCAL AND MONETARY POLICIES
- ECONOMIC MODELS

CHAPTER 1 (LPD 11): MONEY AND CAPITAL MARKETS

1. FUNCTIONS OF MONEY
2. TYPES OF MONEY
3. MONEY SUBSTITUTION AND MONEY CREATION
4. MONEY MARKETS
5. CAPITAL MARKETS
6. MONETARY EQUILIBRIUM
7. MONETARY POLICY (ECB) + “Europe and I”

1. FUNCTIONS OF MONEY

1.1 BASICALLY, WHAT IS MONEY?

Money is any form of medium of exchange that symbolizes perceived value.

“Form”: money can be physical or non-physical

“Medium of exchange”: it is accepted for payments, credit, investments

“Perceived value”: intrinsic value is not relevant

(NL: perceived value = “ervaren” waarde:

iets is “geld” omdat het als “geld” (door iedereen) wordt ervaren), niet perse omdat het iets is dat veel waarde heeft “as such”)



INTRINSIC VALUE =
Value based on the material,
components of the banknote



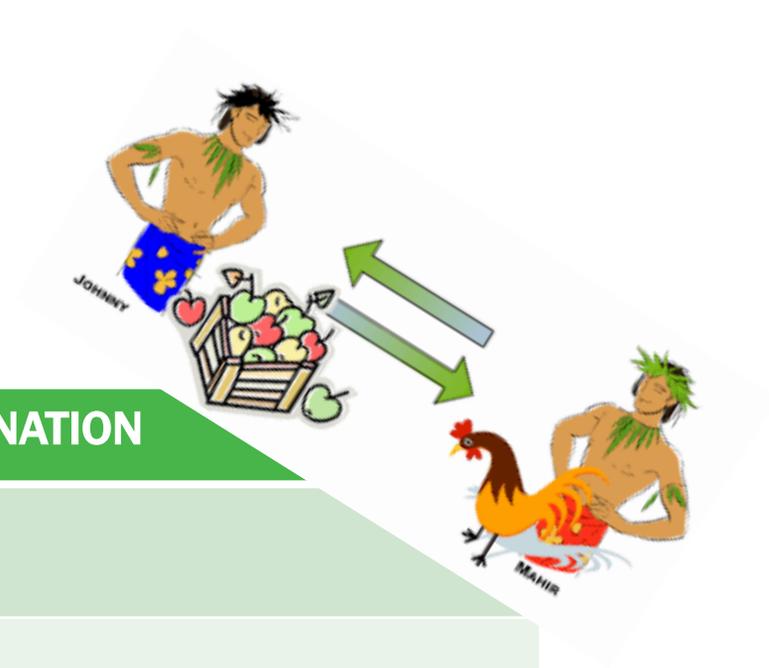
PERCEIVED VALUE =
Value based on what you can
buy with the banknote

In the strictest sense, money has 6 characteristics.

If at least one of these does not apply, we cannot talk about “money”.

MONEY CHARACTERISTIC	EXPLANATION
LIMITED (IN QUANTITY)	Supply is not unlimited, otherwise it would have no value
DURABLE	Value is intact in the long term (Central Bank guarantee)
GENERALLY ACCEPTABLE	Everyone in the economy accepts it as a medium of exchange Money = “legal tender”
DIVISIBLE	It can be used both for large and for small transactions
PORTABLE	It is easy to handle
UNIFORM	Each item is identical and recognizable in value and appearance

Apply the characteristics of money to “barter trade”.
 (using apples and chickens as medium of exchange)



MONEY CHARACTERISTIC	APPLICABLE: Y or N?	EXPLANATION
LIMITED (IN QUANTITY)		
DURABLE		
GENERALLY ACCEPTABLE		
DIVISIBLE		
PORTABLE		
UNIFORM		

CONCLUSION:

**Apply the characteristics of money to “commodity money”.
(cowrie shells)**



MONEY CHARACTERISTIC	APPLICABLE: Y or N?	EXPLANATION
LIMITED (IN QUANTITY)		
DURABLE		
GENERALLY ACCEPTABLE		
DIVISIBLE		
PORTABLE		
UNIFORM		

CONCLUSION:

Apply the characteristics of money to “coin money”.
(Roman gold coins)



MONEY CHARACTERISTIC	APPLICABLE: Y or N?	EXPLANATION
LIMITED (IN QUANTITY)		
DURABLE		
GENERALLY ACCEPTABLE		
DIVISIBLE		
PORTABLE		
UNIFORM		

CONCLUSION:

Apply the characteristics of money to “banknotes”.
(euro banknotes)



MONEY CHARACTERISTIC	APPLICABLE: Y or N?	EXPLANATION
LIMITED (IN QUANTITY)		
DURABLE		
GENERALLY ACCEPTABLE		
DIVISIBLE		
PORTABLE		
UNIFORM		

CONCLUSION:

Apply the characteristics of money to “debit cards”,
 “credit cards” and “apps” = electronic money.
 (Mastercard, Visa, PayPal, ...)



MONEY CHARACTERISTIC	APPLICABLE: Y or N?	EXPLANATION
LIMITED (IN QUANTITY)		
DURABLE		
GENERALLY ACCEPTABLE		
DIVISIBLE		
PORTABLE		
UNIFORM		

CONCLUSION:

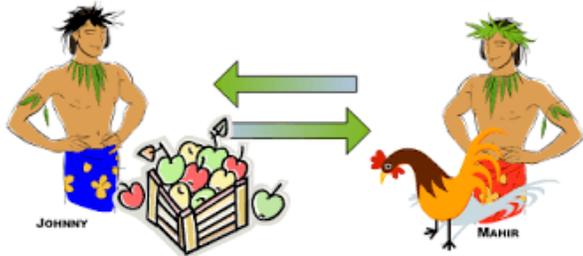
**Apply the characteristics of money to “cryptomoney”.
(Bitcoin)**



MONEY CHARACTERISTIC	APPLICABLE: Y or N?	EXPLANATION
LIMITED (IN QUANTITY)		
DURABLE		
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UNIFORM		

CONCLUSION:

The exercise illustrates the history of money: from barter trade to cryptomoney



Barter trade: primitive and local societies



Commodity money: primitive and local societies



Coins: emerged in the great empires (large-scale societies)



Cryptomoney: the future



Cards, apps: actual electronic forms of money



Banknotes: first "modern" money

1.2 THE FUNCTIONS OF MONEY

MEDIUM OF PAYMENT	MEASURE OF VALUE	MEANS OF CREDIT	MEANS OF INVESTMENT
Money is used in the purchase process of goods and services	Money is a value meter that allows expressing the value of something and comparing the value of different goods and services	Money is used in the process of granting loans and other forms of credit (money is available now, repayment is due in a later stage)	Money is used to store and increase value by realising a return (savings account, shares, bonds, real estate, art, ...)



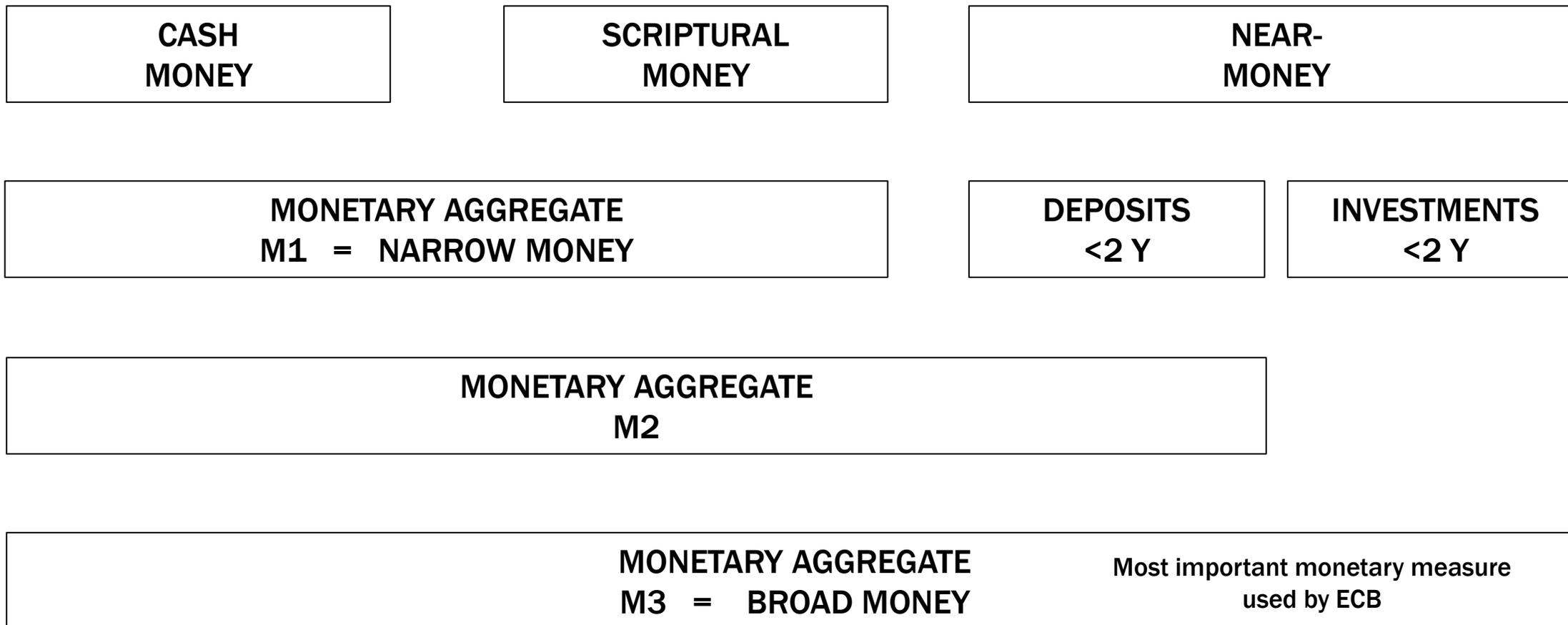
2. TYPES OF MONEY

2.1 Two or three types?

CASH MONEY	SCRIPTURAL MONEY (ELECTRONIC MONEY)
<p>All coins and banknotes in the economy</p> <p>Coins = change (money)</p> <p>Banknotes = fiduciary money: basis of value is the trust one has in the central bank issuing the money</p>	<p>All money on bank accounts and deposits that is available on demand (current account, savings account)</p> <p>Term accounts (deposits) and other investments with a term of <2 years holding money that is not available on demand = NEAR-MONEY</p>
<p>Origin: Issued by central banks = MONOPOLY (ECB + national central banks)</p>	<p>Origin: Issued by commercial banks</p> <div data-bbox="1403 1129 2272 1273" style="border: 1px solid black; padding: 10px; margin: 10px auto; width: fit-content;"><p>Process of scriptural money creation: see later</p></div>

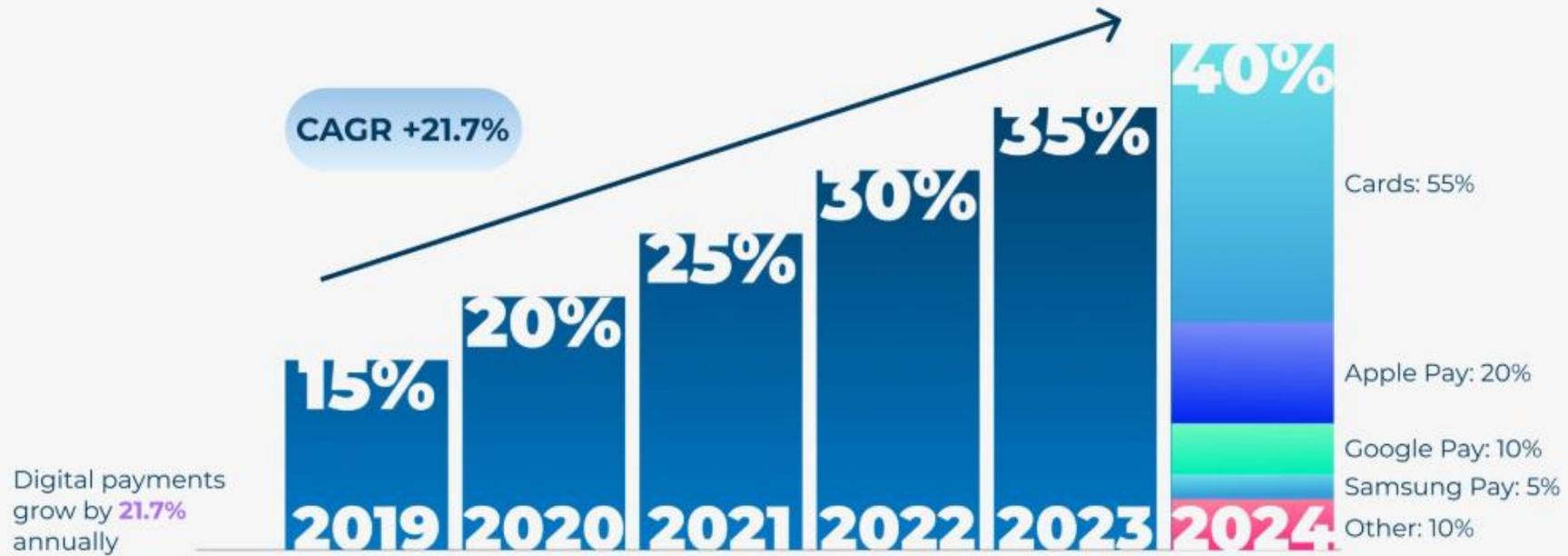
2.2 Money supply

electronic money



Cash money = +/- 10% of money supply / electronic money = +/- 90% of money supply

SHARE OF DIGITAL PAYMENTS IN THE EUROZONE



www.lpmg.com www.ecb.europa.eu

Electronic payments in the eurozone are soaring. From 15% in 2019 to a projected 40% by the end of 2024, the shift is undeniable.

With a growth of 21.7% annually, the future is digital.

Cashless society

Pros

- 1. Reduces risk of violent crime.**
- 2. Reduces tax evasion.**
- 3. Harder for criminals who rely on cash payments.**
- 4. Quicker transactions and shorter queues.**
- 5. Better hygiene.**
- 6. Reduces worthless spare change.**
- 7. Cash imposes cost on banks and firms.**

Cons

- 1. Many adults lack access to bank accounts and credit cards.**
- 2. Privacy issues. Government gain more control over citizens.**
- 3. Cash helps households manage finances.**
- 4. Freedom to choose would be taken away.**
- 5. Cash has intrinsic and emotional value e-cash doesn't.**

www.economicshelp.org

Money quantity theory (Fisher):

Money supply should be in line with economic activity.

$$M * V = P * T$$

MONEY STREAM =
Money supply * money velocity

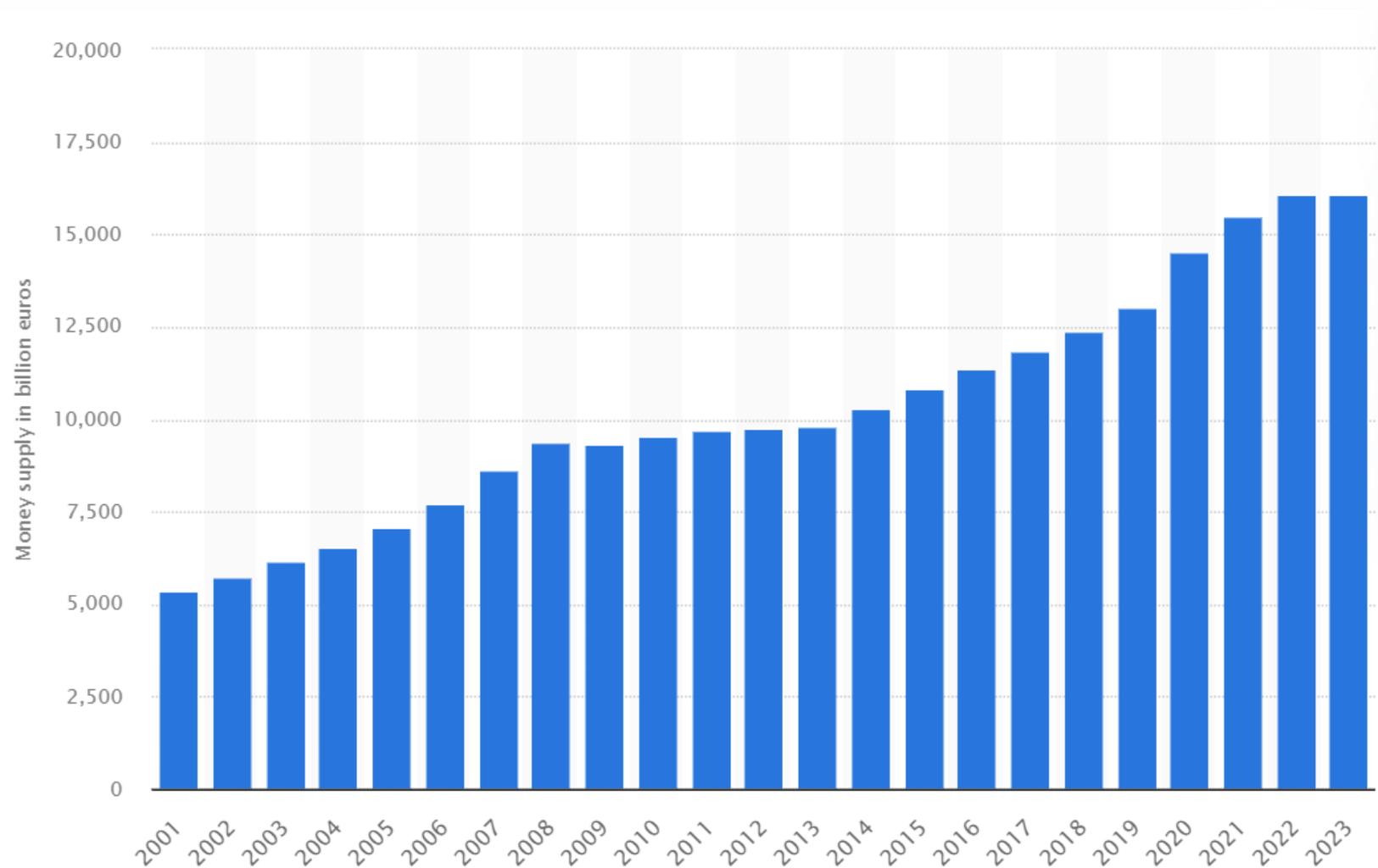
GOODS & SERVICES STREAM =
Price * quantity
= GDP

Assumption: V and T are constant in the short term

This means that there is a direct relation between M and P (see later)

Development of the money supply M3 in the euro area from 2001 to 2023

(in billion euros)



3. MONEY SUBSTITUTION AND MONEY CREATION

3.1 Money substitution

Money substitution is the conversion from cash money to scriptural money and vice versa.

Money substitution does not have an impact on the money supply.

