



B A C K G R O U N D E R S

# What is Money?

Money is any asset that is widely accepted as a means of making payments or settling debts.

Over the course of history, money has taken many forms. “Commodity” money included cattle (related to the word “capital”), iron, gold, silver, diamonds and shells. Today, most money is in the form of bank notes, coins and deposits at banks and other financial institutions.

Whether a tangible object or a computer entry (representing, for example, the value of a bank deposit), money is based on a social agreement to recognize value. This agreement allows a bank note, coin or transfer from a bank to be accepted in exchange for goods and services or to settle debts.

Today, the average Canadian uses a combination of coins, bank notes, cheques and electronic transfer of bank deposits for common commercial transactions, as well as currency and bank accounts to store value. These various forms of money, and the institutions and markets that allow Canadians to borrow, spend, save and invest, are part of Canada’s financial system.

## Money’s main functions

Money has three main functions. Money is:

- **a means of exchange**  
Without money, we would have to exchange goods and services directly—i.e., engage in barter. Money simplifies commercial transactions.
- **a unit of measurement**  
As a unit of measurement, money allows us to compare the value of various goods and services. It is both the standard for pricing goods

and services and the means of buying and selling them. Money also allows us to compare prices over time.

- **a store of value for future use**  
As a store of value, money facilitates the accumulation of savings and the lending of those savings to someone else. This attribute of money also makes it easier to enter into a contract—to pay in the future for goods or services received now.

## Maintaining confidence in money

The value of money depends on the confidence of those who use it. Canadian money, such as bank notes and coins, has value because it is widely accepted and because it is reliable as a store of value.

If money is to do all the things we want it to do, its value must remain reasonably stable over time. Hence, the Bank of Canada works to maintain confidence in the value of Canadian money. The Bank does this by conducting **monetary policy** with the goal of keeping inflation low, stable and predictable. Controlling **inflation** not only helps to protect the value of Canadian money, but also to maintain a positive climate for sustainable economic growth.

Protecting bank notes against counterfeiting—to ensure that they are secure and readily accepted—is another key part of the Bank’s effort to maintain confidence in Canadian currency. The Bank is responsible for the design, production and distribution of bank notes.

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