BANK OF CANADA

What is money?

BACKGROUNDER

The value of money resides in the confidence of those who use it. The Canadian dollar has value because it is accepted by Canadians as the means by which they exchange goods and services.

Historically, the value of money has been vested in an object and has taken many forms: cattle (source of the word "capital"), iron, gold, silver, diamonds, shells, and numerous other things. Nowadays, vast amounts of money are not even objects – they are merely computer entries in a databank.

Whether an object or a computer entry, money is based on a social agreement to recognize value. This allows the entry in the computer or the object to be accepted in exchange for goods and services or for the settling of debts.

Today, our main means of exchange are coins, bank notes, and bank accounts. Cheques, credit cards, and debit cards are frequently used to transfer money. The various forms of money, and the institutions and markets that help Canadians borrow, save, and invest, are part of Canada`s financial system.

The uses of money

Money has three principal roles. It is:

a means of exchange—Without money, we would have to exchange goods and services directly—what is known as barter. Money simplifies these exchanges.

a unit of measurement—As a unit of measurement, money allows us to compare the value of 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 costs, income and profit across time. As such, money is the foundation of the accounting system, which allows us to plan and make economic decisions.

a means of storing purchasing power for future use—As a reserve, money allows us to accumulate savings over time and to lend those savings to someone else. It makes it much simpler for us to make contracts—promising to do something now for payment in the future.

The value of money

The Bank of Canada works to maintain confidence in Canadian money. If money is to do all the things we want it to do, its value must remain reasonably stable over time.

The Bank uses the *Bank Rate* to influence *interest rates*. This indirectly influences the pace of expansion in the broader *money supply*. The Bank conducts *monetary policy* to protect the value of Canadian money against *inflation*. Keeping inflation low and stable maintains a positive climate for long-lasting growth and job creation.

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, which are issued in response to the needs of the economy.