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Money and Banking

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Introduction

Money has been the cornerstone of everything in this world. Without it I don't know how the world and individual economy can perform. One author once said "*Money does not only talk but it does scream*". This is to acknowledge the very importance of money since time immemorial. Its importance is shown in every sphere of life. Companies, organizations, countries, nations, states, people, children, old, men, women, religious people, leaders, politicians, everybody is struggling to get it. Not just to get it but to get it more and more. Some will use all means to get it, others use the right means by working hard and hard to accumulate it. It has been vast observation that the thing called money rules the lives of the above institutions the paper has just referred to.

The question this paper will keep on asking is "why money?" This paper will try to give broad definition of money, to summarise the origin and history of money, to examine its nature and roles in the ancient and current modern economy. The paper will go further to highlight the types of money used in today's economy. The paper will talk about money supply and control in an economy and how it can affect inflation. This paper, "money and banking", will make an overview on banking. Once cannot talk about money without referring to banking.

So why talk about banking while discussing money? The answer is clear and can even be given by a lay man in economics. Money is kept in the bank. Henceforth, this paper will deal with the following about banking: the invention of banking, commercial bank management and its role in the economy as well as various roles of central bank.

This paper will study the role of the World Bank (WB) and other Regional Banks such as African Development Bank (AfDB); and an organization dealing with the injection of money in the economy. The paper will highlight the effects of such banks especially of the World Bank in shaping the whole world economy.

As the reader may be aware, this is a very important topics in the economic development of every country and of the whole world as a global village brought in by financial globalisation. Money and banking is the lung of very economy. It needs pure oxygen for it to breathe well and grow accordingly. This paper will in the next paragraphs try to discuss, review, analyse and critics areas of money and banking heighted earlier. I therefore wish you nice reading and I hope and believe this paper will give you the real insight and knowledge of money and banking.

Having introduced this paper let us now move on, starting from the urgent and pivotal question, "what is money?"

What is Money?

In economy money is also referred to as currency. Lay people and majority of mankind mostly used the term money and a minority of them used the term currency. The paper

will use the two terms interchangeably. Henceforth let list down some few definitions of money.

Oxford English Minidictionary defines it as follows "***Money*** *is current coins and bank-notes; wealth; resources; payment for work; (pl.* ***moneys****) any form of currency*."

In "Dictionnaire de la comptabilite et de la gestion financiere anglais-francais" Dictionary for Accounting and financial management English-French, the following synonym is given to money "*currency; hard cash; legal tender; money supply; near money; paper plastic (money).*

Oxford Advanced Learners Dictionary defines money as follow: "*Money is what is earned by working or selling things and used to buy things*"

The next definition and explanation is taken form www.en.wikipedia.org which defines it as follows: "*Money is anything that is generally accepted as payment for goods and services and repayment of debts*."

In his book *History of Money*, Glyn Davies gives a concise definition of money as follow: "*Money is anything that is widely used for making payments and accounting for debts and credits*."

Above definitions showed what money is all about. When given a close look at them, one may realise that all the definitions are related in explaining what money is. The bottom line for these definitions is that money is a *medium of payment* which constitutes one of the functions of money that will be dealt with further in this paper.

Having grasped the essence of money, the next paragraph will focus on the history of money. This is to highlight how money has come to be; invention that constitutes one of the genial inventions of mankind.

History of Money

The historical accounts of this paper on money are to show how step by step and age by age money came to be. These accounts will immensely borrow from Glyn Davies' book 'history of money'.
Humanity has always looked for away for trading with each other. In the very old age, trade grew tremendously. According to the Davies, the main way of exchange of commodities is change commodities with commodities. This type of exchange is called barter trade. Before going to the discussion of barter trade, let us see what is the dictionary definition of barter trade. Oxford Advanced Learner's Dictionary, 7th edition defines it as follow in a verb form: '*Barter is to exchange goods, property, services, etc. for other goods, etc. without using money: The local people bartered wheat for tools. The prisoners tried to barter with the guards for items like writing paper and books*.'
Close review of the above dictionary definition and Davies book on History of money, barter trade is exchanging commodities with other commodities. Simply put it, the nature made things in away that it is difficult or hard for a person to possess everything that

he/she wants or needs. In today's world, even millionaires don't have everything they want and need. In the ancient period, to resolve the issue of lack of omni possession of human being, the society came up with barter trade. For example if I have a cow and I need salt and sugar but I don't have them, I can exchange my cow with salt and sugar with someone who have them. This typically depicts barter system. This trade went on in primitive societies for a long period. According to Oxford dictionary quoted above, barter as a noun is given as example by explaining, '*barter: The islanders use a system of barter instead of money*.' This is to say that barter trade is still on in some societies around the globe.

The barter has been used to sort out the issue of lack of omni possession of mankind. It has been social reasons rather economic purpose. Meanwhile barter trade has the following disadvantages that made it to give birth to primitive forms of money. Glyn discussed drawbacks of the barter system which gave birth to money.

- Difficulties of double coincidence of wants.
  One of the hiccups of the above system is that it is very difficult to have double coincidences of wants. For instance someone who has cows and needs salt will have to go around looking for the person with salt who may need cow meat at the same time. Most of the time it is not as easy to have two persons with each other wants to happen to meet. The main problem here is the one with cows have to search for individuals who have salt and want cow. This exercise has become very cumbersome and unsuccessful.
- Lack of common unit of value.
  Even if the cow person gets the salt person, the other difficulty is how to value a specific amount of cow with a specific amount of salt. There is no common unit of value among the commodities.
- Lack of system for future payments or contractual payments.
  For instance the individual with cow cannot tell the one with salt to pay later when collecting the salt. Both need the commodity at the point of double coincidence. Henceforth in barter system there is no possibility for future or contractual payments.
- Lack of system for storage of value.
  Most often than not, people store their wealth in monetary economy in form money. Contrary to barter system, it is not easy to store value of one commodity into another. Even if it is possible, storing wealth in terms of goods is subject to cost of storage, loss of value or even impossible for perishable goods. Storage of value is another cumbersome drawback of barter system.

Glyn talked about the above disadvantages and referred to them as: "*disadvantages of barter provided an impetus for development of money"*. Henceforth the need for commodities that have high value densities, easily portable, and of durability are to be set apart and eventually used as money. The disadvantages called for the emergence of money which started with the primitive forms of money that will be discussed in the next paragraph.

Primitive Forms of Money

Glyn said that due to the disadvantages of barter system and in order to improve the form of early barter, few commodities, one or two (with some specific characteristics such high value, easily portable with high durability) in preference to others have been chosen to act as single medium of exchange. At this stage, they have not been called as money but the author referred to them as primitive forms of money. Glyn Davies in his book *A History of Money* gave an alphabetical list of primitive moneys which have been used at different times in different places in the history of the world; below is the list. *"Amber, beads, cowries, drums, eggs, feathers, gongs, hoes, ivory, jade, kettles, leather, mats, nails, oxen, pigs, quart, rice, salt, thimbles, umiacs, vodka, wampum, yarns, and zappozats (decorated axes)."*

These above commodities have served as medium of exchange and managed to rule out the disadvantages of barter trade. From these primitive forms of money, mankind continued to search for ways and technology to improve and resolve the puzzle of a single medium of exchange that can meet all the functions of the modern money which this paper will discuss at later stage.

In his book *Economics* Lipsey says that: "*All sorts of commodities have been used as money at one time or another, but gold and silver proved to have great advantages. They were precious because their supplies were relatively limited, and they were in constant demand by the wealthy for ornament and decoration. Hence these metals tended to have high and stable prices. Further, they were easily recognised, they were divisible into extremely small units, and they did not easily wear out. Thus precious metals came to circulate as money and to be used in many transactions*." These metals were used as medium of exchange. Lipsey discussed that in every transaction, it was important to carry the metal in bulk. At any purchase the required quantity of metal was carefully weighed on a scale. This excise became very cumbersome then give birth to coin in order to eliminate the need to weigh at every point of transaction the bulk carried metals.

The Invention of Coins

In his book Glyn said that coins have been invented and carried monarch authority. This authority was that monarch made the coins and affix his or her seal henceforth guaranteeing the amount of precious metal the coin contained. This has easy trade and traders gotten a big relief for they know, recognise and accept the coin at its face value which is nothing more than a statement mostly *the monarch seal* that a certain amount of metal was contained therein. According to Lipsey, the monarch coins were easily subject to counterfeit which is done by his or her subjects by minting the metal and supplying low value coin with low intrinsic worth and henceforth not convenient for expensive purchase. In his book, Glyn said that the first coins have been minted some time in 640-630 BC and its usage spread quickly from Lydia to Ionia, mainland Greece, and Persia.

Though the paper is discussing here the origin of money, it is of important value to mention the consequences of fraudulent minting of the coins by the monarch subjects.

The subjects take the original coins then remint them into new coins with lower metallic value. This exercise has been referred to by Lipsey as *debasing of coinage* by rulers who in turn use it to pay their bill henceforth leading to the increase in the commodity price. This issue brought in Gresham's Law which is after Sir Thomas Gresham (1519-1579), an adviser to the Queen Elizabeth court. He stated that "*bad money drives out good.*" The idea behind Gresham statement was that debased coins have been minted with low amount of gold while the original coins have higher amount of gold. The debasement was that monarch subjects remint the coins by reducing the gold value. When Queen Elizabeth I came to power in the middle of the sixteenth century the coinage has been severely debased and new coins have been minted with their full face value in gold. The new coins were fed into circulation but disappeared in the next few days. Gresham came up with this law and proved helpful in explaining the experience of a number of modern high inflation economies today. Briefly put it, coins with high amount of gold are easily debased in order to keep part of the gold quantity and putting a tiny value of it henceforth altering the face value. Therefore more debased coins are needed to purchase a commodity. As today during inflation more unit of money is needed to purchase the same amount of commodity. This shows the intrinsic high value of precious metal in the process of the birth and the value of money; value which is correlated to paper money and the quantity of gold kept in the goldsmith's safe.

Paper Money and Early Emerging of Banking

As this paper highlighted earlier, the birth of money started with useful and precious natural commodities, then to coinage minted by precious metals such as gold and silver. Gold has been the measure of value of the minted coins.

The next lines, the paper will show how paper money came to be. It is a very fascinating and intelligible history of the invention of paper money. Above all the paper money has its origin linked to gold standard. Lipsey in his book *Economics* page 580-581 gives a very clear historical account of paper money. The story of the birth of paper started with the goldsmith who stores ounces of gold in his safe. He uses safe to store the precious metal for safety reason. In the process people started keeping their gold with the goldsmith's safe. Upon the deposit of an amount of gold, he will issue a receipt containing the amount of ounces of gold deposited. At the very period gold is used for purchasing and paying debts. Any time someone wanted to pay for a good or services, he/she will go to the goldsmith and get the amount needed by presenting his/her receipt. In the process there was better revelation to people that if actually one does not need the gold at the selling of a commodity, instead of taking to the goldsmith for keeping, the buyer rather issue part of the goldsmith receipt on the amount of ounce of gold needed for the transaction. In the process people started having confidence in the goldsmiths. Lipsey put it very well and I quote "*If the seller wished to buy a good from a third party, who also knew the goldsmith to be reliable, this transaction could also be effected by passing the goldsmith's receipt from the buyer to the seller. The convenience of using pieces of paper instead of gold should be obvious*."

On the above note, the pieces of paper have been very common in transacting businesses. It has become a promise to pay a specific amount of gold on demand. Lipsey continues and says, "*… the promise was made by goldsmiths and later by banks*."

According to Lipsey, in the nineteenth century, paper money which is backed by precious metal was issued by private banks and was called *bank notes nominally convertible into gold.(fractional backed money)* During this time each bank issues its own money and various paper moneys issued by them circulated side by side and all backed with the amount of gold.
Later on, goldsmith and banks discovered that for every ounce circulating as paper money can be used solely for various transactions of any kinds without any need for the desire of converting them into gold which Lipsey affirms. For that reason the banks were able to issue paper money more than redeemable in gold. This led to some banks to honour their pledges prompting them into considering their note as mere paper that is useless then prompting them to be ruined with panic from their customers and henceforth suddenly run on their gold reserves. Sorting out this situation gave raise to fiat money.

Fiat Money

As we have already noted in a paragraph above, paper money and coins are issued by private banks. Lipsey says that with the time goes on, money issued by banks became less and less common. This is where central bank took over the control of the currency henceforth is only allowed to issue currency which is fully convertible in gold. Central Banks followed the banks gold standard of currency backing. The same scenario and processes are of the order of the day, that is gold is brought to central bank which issue a certificate showing the gold was available on demand. As the time goes on, central banks and other banks issue more currency than available gold. Though this condition, "*central banks had upper limit on note issuance and had discretionary control over the quantity of currency outstanding"* as Lipsey mentioned. The over issuance of currency less backed by gold led into fiat money during the world wars. During these wars, many countries abandoned the gold standard of their currency. Glyn says in his book that Great Britain first decided to withdraw gold from internal circulation followed by other countries. The breakage from gold through evolution of money was due to the fact that there was no compatibility between the amount of gold and the money being supplied by central banks and private banks. Now the question is what replaced the gold standard of currency?

Lipsey mentioned in his book page 581 the following statement of the turning of point of the gold standard into lawful standard of currency. "*During the period between the world wars, almost all of the countries of the world abandoned the gold standard; their currencies were no longer convertible into gold. Money that is not convertible by law into anything valuable derives its value from its acceptability in exchange. Such **fiat money** is widely acceptable because of it is declared by government order, or fiat, to be legal tender. **Legal tender** is anything that by law must be accepted when offered either for the purchase of goods or services or for the discharge of a debt*." Now one can see how the evolution of money for a long time backed by gold has turned into new direction after the world wars. Few countries today still maintain currency gold standard. Lipsey

put it in this way: "*few countries preserve the fiction*") that their money is backed by gold but in reality it is not. He says Federal Reserve put it plain and clear "*This note is legal tender"* or fiat money.

This is an interesting and fascinating historical account of money. From primitive form of money: cowries, amber etc…to coinage through gold and certificate of deposit of the goldsmith and the banker, passing through paper money backed by gold and managed by private banks then central banks, finally the modern money it be in bank note or paper money or in coin is today backed by law. The modern currency which, in its various forms: bank note, coins, cheque, debit card and credit card behaving like cheques, electronic money all are backed by legal tender of unit of money. The invention of money which started long ago during the ancient age and which has been polished in the modern day as "legal tender" and acceptable as the sole medium of exchange of commodity with other commodities, has been one of the most important and genius invention mankind had ever achieved. Today just by legal order, countries, and nations can issue money which cannot be compared to any commodity in terms of its value. Money has become the most important thing in the world. The question which will take this paper into the next discussion is what are the characteristics of this important commodity "money" which everyone is running after?

Characteristics of Money

In the next lines, this paper will discuss the various characteristics, or four main ones of money. These will be purely economic characteristics of money. Here, we will consider the modern type of money. Though the early forms of money pursued such characteristics to have reached the modern forms of money which make fiat money of today, we will more concentrate on money or currency used today by nations. The following were depicted by AmosWeb Encyclonnomic WEB.pedia retrieved on 5 January 2011 as the main four characteristics of money or good money.

- **Durability**

One of the most important nature money should have is it durability. From primitive forms of money to the modern forms of money, one will realise that the commodities used are of durable materials except some very few in primitive forms of money. The historical accounts of the invention of money has shown that at the end toward modern money, precious metals like gold, silver, and bronze have been used. Emphasis was put in gold just because of its durable characteristics. This henceforth led to the use of high quality bank to issue bank note. Accordingly the durability characteristics mean that money should have the original shape, size, and clarity for a long period of time. In the article, AmosWeb talked about the reasons why durability is critical for the following, by saying "*Durability is critical for money to perform the related functions of medium of exchange and store of value. People are willing to accept an item in payment for one good because they are confident that the item can be traded at a later time from some other good. An item works as a medium of exchange precisely because it stores value from one transaction to the next. And this requires durability."* Durability of the money

gives confident to the people that it can be used as medium of exchange and store of value which are some of the functions of money which this paper will discuss on a later stage. Having the sole legal tender, money has become the most important and precious commodity for making transactions. Personally I may say it is the most important thing in the world, henceforth needed to use durable material to make it. The intrinsic functions just mentioned made the society to choose durable products to make money. Even paper money is made of high quality paper with significant decoration on outer and inner look. On the same note, most paper moneys have a tin line in the inner part of it. This sophistication of paper money is to respond to it durability and its non counterfeit characteristic which will be discussed soon. According to the article *Money Characteristics*, the author mentioned a very important side of the durability of money not only its physical side but also its social and institutional durability which are very important. He says: "*While physical durability has been historically important for money, social institutional durability is also important for modern economies. The durability of modern money, especially paper currency and bank account balances, depends on the durability of social institutions—especially banks and governments. While government –issued paper currency might remain physical intact for centuries, its ability to function as money depends on the institutional durability of the government*." This paper is perfectly in agreement with the above statement for the reason that modern money is backed by law. This is to say that people should have faith and confidence on such institutions such as central bank and government that are responsible of issuing money. This brings in the political connotation of a government that may affect the durability of the money. For instance in Zimbabwe, before adopting the USD currency or multi world known currencies, people and international opinion lack faith in the government, and the currency though physically good looking durable did not go far. It lacks durability and value. Today Zimbabwe dollar is no more in circulation. This means that physical durability of money, social and institutional durability should go hand in hand.

This first characteristic of money brings in, the next important one which is divisibility of money that should be durable.

- **Divisibility**

One of the cumbersome conditions of barter trade is its inability to exchange commodity with the right size commodity. This prompted money developer to think further on how to sort it out. Henceforth, the next characteristic of money is its ability to be issued into smaller denominations that can be used for exchange of goods and services of their varying values. Money needed to be divisible from smaller denominations that are able to make the biggest one when put together. In this way goods and services of different values can be purchased easily. Accordingly the AmosWeb referred divisibility to the use of precious metals for minting money. The whole idea is today the basis of the modern money. *Money Characteristic* article highlighted idea as the following: "*Divisibility is one reason why metals, such as gold, silver, copper, and nickel, have been widely used as money throughout history. As pure elements, each can be divided into really, really small units, in principle, down to the molecular level. In contrast, livestock, which has seen limited use as money in less sophisticated agrarian societies, never become widely used*

as money in modern economies. Dividing live water buffalo into increments small enough to buy bubble gum is highly impractical." This characteristic made it money denominations into units of the currency. For instance the smallest note in any currency is "one" which derived from the 'ounce of gold' while money was backed by gold. Divisibility characteristic of money has been very important for money to be efficient as medium of exchange as well as to make money transportable without any hiccups.

- **Transportability**

During barter trade period, one of the disadvantages was how it is difficult carrying one commodity especially for huge commodity like cow looking to exchange with a plate of salt. For that reason, in the process of the evolution of money from primitive one to modern money, the idea clicked well to give an intrinsic characteristic of transportability to money. Accordingly, this third characteristic means that money must be able to be transported from one position to another easily in the quest of paying for goods and services whenever and wherever one wanted. Based on this need for money transportability, in the article *Money Characteristics,* the author mentioned how this has evolved over the time. He said: "*Once again, transportability has played a key role in the use of metals like gold, silver, copper, and nickel as money. Carrying around a satchel of metal coins was never much of a burden. However, these metals were largely replaced by paper currencies in the 20th century because paper was lighter and easier to carry. In fact, a $ 100 bill is just as easy to carry as $1 bill. This notion has been taken further with paper checks used to access checking account balance. A check for $1 million is just as easy to transport as a check for $ 1".* Reviewing the author's factual observation above, one may say; actually money has evolved over the time to meet the pressing need of transportability characteristic.

I would add up to his statement that the nature of money in terms of transportability is still in evolution. Visa card, credit card etc… various types of cards have made somehow easier to transport money across boundaries. These cards are able to carry limitless sum of money though some time it is limited by each card, but at least it more user friendly to carry money in that form. When most currencies are legal tender in some specific area of jurisdiction, these cards have broken the national barrier when it comes to transportability characteristic within these wide ranges of influence and have taken the transportability widely across the globe. Modern money in its various forms has broken barriers. On top of cards, the electronic money has even made it easier for transportability of money. Personally I can talk about the efficient and effective impact of transportability characteristic of money through the usage of my visa card. For instance while on official mission across Africa where I work where work and go on missions in various African countries and around the globe, I use my visa card to make all payments: hotel accommodation fee, paying my subsistence needs, and all other needs during my mission period. If I were to carry money for my mission's tour, it could have been more cumbersome to me. It is henceforth true that though the coins and paper money are designed to be easily transported, it has become easier with card and electronic money. To sum it up all, money has truly evolved over the time and continues in our current modern to be more in order to curb down and even to cut forever the issue of

counterfeitability of most currency. The noncounterfeitability becomes the fourth characteristic of money.

- **Noncounterfeitability**

One of the other characteristics which this paper will not go into detail is limited supply of the money. In true essence for money to have very high value, it should be scarce. Being a precious commodity used as medium of exchange for all goods and services, it might carry precious characteristics. As you may agree with this paper, precious commodities are naturally very scarce. This is the case for money. In many countries especially with low value currency, counterfeit moneys are rampant. During Zimbabwe economic recession, their legal tender has been worthless. Why this? Because the Reserve Bank could not control the amount of money in circulation. Due to many factors that this paper may not be able to highlight, Zimbabwe $ has become totally worthless. Uncontrolled amount of money has been printed over a short period of time violating the economic policy of printing money. This paper may call it 'counterfeit money' in circulation. The real counterfeit money is the money duplicated unlawfully and faked by people increasing henceforth money supply in the economy causing hyperinflation.

Due the preciousness of money, it is not given to anyone to print it up and down or make it easily. That is why the printing of money is solely government task. AmosWeb article put it clearly and vividly in the following statement: "*Preventing the unrestricted duplication of money is a task that has long been relegated to government. In fact, this task is one of the prime reasons why governments exist. An economy needs government, ABSOLUTLY NEEDS government, to regulate the total quantity of money in circulation. By controlling money duplication, governments are also able to control the total quantity in circulation and this control is what gives value in exchange.*" Le met emphasise on the last nine (9) words of the quote above; "*..and this control is what gives value in exchange*". This paper referred to Zimbabwe case earlier where Zimbabwe $ became like worthless paper. Why? Because the government could no more control the total quantity in circulation and has loss all control on the required quantity in the economy. And the final impact was that, there was no value on the Zimbabwe $ until the country decided to adopt US$ and other world known currencies as legal tender.

Though counterfeit money does exist in every economy, to prevent it, AmosWeb article highlighted governments' effort and ways to counteract it. The article says, "*Through the years governments have tried to thwart counterfeiters by stamping images on coins, using special ink and paper for currency, and generally maintaining high level of security surrounding money 'production'. To counter advances in computer technology in the 1990s, the United states redesigned paper currency, adding water marks, microscopic printing, and magnetic strips, in an ongoing effort to make the task of counterfeiting currency just a little more difficult*."

Currency printing and minting control by the government, is a very key role, in order to fight counterfeiting of money and maintain the precious value given to money above all other commodities.

Durability, divisibility, transportability or portability and noncounterfetability have given money the precious commodity and the highest value over all commodities. The evolution of money finally gives money the just described characteristics for it to be known as money or good money. Whenever money respects all the above characteristics, then it will play its various functions which this paper will discuss in the following lines.

Functions of Money

As you may see, previous paragraphs have discussed money characteristics. From these characteristics one may be able to know recognize the true money as legal tender. The next lines will have an overview on various functions money does play in the economy. This paper will mainly focus on the three main functions of money.

In his book *International Economics, Theory and Policy*, Krugman and his counterpart Obstfeld highlighted functions of money on pages 358-359. They talked about the following functions: money as medium of exchange, money as a unit of account and money as a store of value. Let therefore discuss each one of them in the next paragraphs.

- **Medium of Exchange**

The barter trade economy was based on exchange of goods. The same continues into the modern economy. This is to say that economy and doing business are based on exchange of goods and services. Some people call it trade or commerce. At the end of the day, exchange of commodities and services has become the focal point of doing business which leads to economic growth. Since time immemorial, mankind has looked for a secure commodity which can be used as a medium of exchange. In the process, the economy gave birth to money. Money has been used since then as the sole, efficient and effective medium of exchange. Medium of exchange literally means; 'means of changing one good with another'. Money that fulfils all the above characteristics have been accepted worldly therefore plays big role in thwarting the cumbersome hiccups of the high costs that have been with barter trade for searching for suitable commodities one may have needed. Krugman affirms this in his book and says. "*Money eliminates the enormous search costs connected with a barter system because it is universally acceptable. It eliminates these search costs by enabling an individual to sell the goods and services she produces to people other than the producers of goods and services she wishes to consume. A complex modern economy would cease functioning without some standardized and convenient means of payment*." So far money is the only '*standardized and convenient means of payment*'.
Accordingly Krugman said that '*the most important function of money is to serve as a medium of exchange*'. This function has made it as the most important commodity all over the world and has become the main motor for moving an economy upward. This single item people use to buy everything around the globe can as well be used as store of value if one does not have immediate need for exchange.

- **Store of Value**

The next function of money is that its serves as store of value. Stable money that meets all money characteristics efficiently remains stable in value over the time. Money in this type cannot be eroded by inflation. For instance I may sell a land or a property which may bring me a high income. The truth of the matter is that I may not need to use all that money now or in the short period of time. The only and safe way is to keep it in the bank. By doing so my money is serving me as store of value. I have transferred land or property value into my liquid money which I keep in the bank. Later when I need it for anything else then I may use as medium of exchange, but its value remains. By doing so, money serves as *an asset or a store of value* as Krugman affirms.

So far few currencies around the globe have proved themselves in playing this function efficiently just because of their stability in value. Lee Flamand gave an impressive statement on such currencies and denoted them as "*Hard Currency"* in his article *Types of World Currency* retrieved on 10/01/2011 from www.ehow.com . He says "*Hard currency is any world currency that remains a stable store of high value over a long period of time. Hard currency usually comes from highly industrialized, politically stable nations. Examples of hard currency include the U.S. dollar, the British pound sterling and the European Union's euro. These currencies tend to be accepted beyond their national boundaries, and in some instances are adopted by other governments as its primary currency.*" To build on what Flamand just said, this paper draws a conclusion that though money plays a role of store of value, stable currencies owe their value to the strong economic strength of their nations, their political stability. Currencies such as US dollar, British pound sterling and the European Union's euro have proved themselves to be the best money for store of value so far. Another lesson learnt from the above statement which comes to confirm money as a legal tender is the role of stability the political institution plays in the stability of currency. This confirms strongly the statement made by AmosWeb and quoted in the paragraph of **Durability** as characteristic which states in the last part of the statement as the following "……….*While government – issued paper currency might remain physical intact for centuries, its ability to function as money depends on the institutional durability of the government".* Though many currencies don't meet such yardstick to be known as hard currencies, still in their respective countries they still play the role of store of value though their values are most often eroded by inflation due to lack of stable political system and weak economic strength. On top of the above let us discuss money as unit of account, the last but not least function of money.

- **Unit of Accounts**

The last important role money plays in an economy is to serve as unit of accounts. In this regards, money is not regarded per se as an existing physical money. The function simply implies that in accounting, in banking, and in businesses goods and services are recorded using units of money. For instance a shopkeeper can in advance record the stock of good he is holding in monetary term. This implies that money is used purely for accounting purposes. Lipsey said it clearly in his book Economics page 445 in the following way

"*Money also can be used purely for accounting purposes, without having a physical existence of its own*." When serves as unit of accounts, it means that it acts as measure of value. Barter trade has difficulty to measure commodities. This even prompted the invention of money which measures commodities value. Today prices of goods and services, assets being held can be given their worth in monetary term, or in terms of units of money. But the bone of contentious remains the same on how a specific commodity is set at specific unit of money, or let me put it clearer, why the book of Economics was set to US$ 40? Well this will be another debate this paper cannot go into now as pricing method. Meanwhile, the function of money as unit of accounts has played a very significant role in pricing process of commodities and assets. In this regards, Krugman says in his book International Economics page 358 by explaining clearly how this function plays in pricing process:

> *The convention of quoting prices in money terms simplifies economic calculations by making it easy to compare the prices of different commodities. The international price comparison….., which used exchange rate to compare the prices of different countries outputs, are similar to the calculations you would have to do many times each day if different commodities' prices were not expressed in terms of a standardized unit of account. If the calculations ….gave you a headache, imagine what it would be like to have to calculate the relative prices of each good and service you consume in terms of several other goods and services. This thought experiment should give you a keener appreciation of using money as a unit of account*."

The above quote explains it all. Especially I like the last part of the statement which says all of us, should have '*a keener appreciation of using money as a unit of account'* because it has made life actually very easy and simple for mankind.

The paper has discussed all the main four various functions of money. Because of these functions, people hold money for various reasons and purposes. We then discuss the motives for why one may hold money.

Motives of Holding Money

People hold money for various reasons. In economics, three motives have been raised by Lipsey which the paper will review and show that money is not an end on itself.

- **The transactions Motive**

We have already discussed money as medium of exchange. Exchange of goods and services means transaction. This is to imply that transactions are done using money. Henceforth the first motive of holding money is for transaction purpose. This purpose is to pay for commodities one may need. In a way, money can be held not for beauty reason but for transacting businesses. This motive remains the main motive for which one can hold money. According to Lipsey, the transaction purpose is due to the fact "*payments and receipts are not synchronized"* as he affirms in his book on page 467. He talked about transaction balance to be held and what determined its size? This paper will not go

into these details for now. The next important thing is to highlight the next reason for which people for precautionary motive hold money.

- **Precautionary Motive**

Another motive for which people hold money is for precautionary measure. For instance, when I am going to visit a friend or parent, who so ever in the next town, the wisest way is to carry some money. Though I did not plan to make any specific transaction on my way, unforeseen circumstances may force me to undertake unspecific transaction. Let say I have a puncture on my way, and then I will be forced to make a repair of my tyre which obviously will need money. Holding physical money in pocket or in form of card to pay for any unforeseen expenditure relates to precautionary measure. Money is henceforth held for precautionary purpose.

Lipsey refers to it as "*precautionary balances"* which firms and organizations hold most of the time because of uncertainty and to take advantages of opportunities that arise here and there. He says, "*Precautionary balances provide a cushion against uncertainty about the timing of cash flows. The larger such balances are, the greater is the protection against running out of money because of temporary fluctuation in cash flows.*" To put it other way, firms and individual need to keep money balances aside for uncertainty. For this reason, firm and individual needed to maintain their cash balances at specific level. Cash stock management needs to be used in this case to avoid being caught up unaware henceforth be forced to go into debt when the unexpected need for using money arises with its interest bearing payment. The main reason for precautionary purpose of holding money is stated by Lipsey in the following manner: " *The precautionary motive arises because individuals and firms are uncertain about the degree to which payments and receipts will be synchronized".*

Let us then discuss speculative motive of holding money in order to complete the full circle of the purpose of holding money.

- **The Speculative Motive**

Money is held here not to make expected transaction or unexpected transaction but purely speculative purposes, that is to take advantage on any opportunistic situation. In these terms, Lipsey says on page 468 of his book that money is held for its characteristic as an asset. He says "*Firms and individuals may hold some money in order to provide a hedge against the uncertainty inherent in fluctuating prices of other financial assets. Money balances held for this purpose are called speculative balances*". Speculative money holding is to avoid the eroding of the money for the reason that other financial assets are not stable during some period of the economic circle especial during the depression, money is held as speculative during which investors avoid any form of investment rather than keeping their cash balances purely as speculative as possible and wait for the next gainful opportunistic assets to invest in.

This paper has so far discussed characteristics of money, functions of money and motives of holding money. These main three focuses on money can widen the mind of anyone to reflect deeply on the importance of money. This importance which in economic side of point view made life simpler than the barter trade, better living standard brought about by economic growth. Money has stood the test as the main economy running motor. Gresham's law which states that "*bad money drives out good*" has been proved in the modern economy of how this negatively affects the economy when currency management which is under the jurisdiction of central bank and commercial banks fails. Though during the historical accounts of money, the paper briefly talked about the birth of commercial bank, next paragraphs will dealt with central bank and commercial banks in details.

Commercial Banks

In earlier paragraph, the paper briefly discussed origin of banking which started with the invention of coinage. Bank originally started with keeping gold or other precious metals in the goldsmith's safe. In the processing, the goldsmith issues receipt of deposit which needed to be presented in order to collect the amount of metal one may have needed. Later on banks came in the business by issuing bank notes and were trading side by side with the goldsmiths. Glyn talks about the origin of bank as early as ancient time. In www.answers.com/topic/commercial-bank, the origin of bank has been depicted in the following statement in the article commercial bank; "*In fact, the world traces its origins back to the Ancient Roman Empire, where moneylenders would set up their stalls in the middle of enclosed courtyards called macella on a long bench called a bancu, from which the words banco and bank are derived."*

A briefing on the origin of bank has been said, but let us see what bank is in our current context. This paper will give few definitions of commercial bank before entering into details.

In investopedia Financial Dictionary, commercial bank is defined as follows: "*A financial institution that provides services such as accepting deposits and giving business loan*."

Barron's Dictionary of Banking defines commercial bank as follows: "*State bank or national bank owned by stockholders, that accepts demand deposits, makes commercial and industrial loans, and performs other banking services to the public.*"

Let continue with another definition that comes from Barron's Real Estate Dictionary. "*A financial institution authorized to provide a variety of financial services, including consumer and business loans (generally short-term), checking services, credit cards and saving accounts."*

The definitions can go on and on depending on the type dictionary used. The aim of this paper is not per se to discuss the origin and the definition of commercial bank but to highlight major roles undertaken by commercial banks. The paper has already talked about and it is of paramount importance to discuss the roles commercial banks played in

dealing with money. As the paper has already stated earlier, one of the motives why people hold money or need money is transaction motive which constitutes the main activities of commercial banks.

Lipsey highlighted *issuing of money* by commercial banks but this function has been taken away from them with the time and given to central bank because money has become a *legal tender* governed by government laws for its acceptance.

On the other hand, Lipsey highlighted functions and earnings of commercial banks in the statement below from his book 'Economics', page 586.

> *"Commercial banks used invested funds to 'earn money' in the same sense as firms that make neckties or bicycles do. A commercial bank provides a variety of services to its customers: a relatively safe and convenient place to store money and to earn a modest but secure return, the convenience of demand deposits that can be transferred by personal check, and often financial advice and estate management services. The bank earns some revenue by charging for these services, but such fees are only bank's earnings. A larger portion of a bank's earning is derived from using the funds placed with it to make loans to households and firms to invest in government securities.*"

Lipsey statement is a self explanatory when it comes to commercial banks functions and earnings. www.answers.com/topic/commercial-bank gives a details activities performed by commercial banks which this paper paints in bullet forms below:

- *Processing of payment by way of telegraphic transfer, EFTPOS, internet banking, or other means*
- *Issuing bank drafts and bank cheques*
- *Accepting money on term deposit*
- *Lending money by overdraft, instalment loan, or other means*
- *Providing documentary and standby letter of credit, guarantees, performance bonds, securities underwriting commitments and other forms of off balance sheet exposures*
- *Safekeeping of documents and other items in safe deposit boxes*
- *Sale, distribution or brokerage, with or without advice, of insurance, unit trusts and similar financial products as a 'financial supermarket'*
- *Cash management and treasury services*
- *Merchant banking and private equity financing*
- *Traditionally, large commercial banks also underwrite bonds, and make markets in currency, interest rates, and credit-related securities, but today large commercial banks usually have an investment bank arm that is involved in the mentioned activities.*

The above highlighted activities engaged in by commercial banks though exactly picked from the article is worth it because, the paper cannot at its own generate the functions and activities of commercial banks but use the above article. A close review of the highlighted functions show that commercial banks play very important financial roles in every economy. For that reason they need to be regulated by the government through

central bank or federal bank or bank of England. In the next discussion we will find out what are central bank and its functions.

Central Bank

The aim of this paper is to discuss the role and functions of central banks. Before hand, let us see the definition of central bank taken from the glossary of the book 'economics' by Lipsey and Chrystal. "*Central bank a bank that acts as bankers to the commercial banking system and often to the government as well. In the modern world it is usually a government-owned institution that is the sole money-issuing authority and has a key role in the setting and implementation of monetary policy."*

The above definition has an intrinsic roles played by central bank. Before going into the detail on central bank role, the paper would like to point the reader the brief history of central bank in the paragraph of history of money. We have already seen that at the beginning, central banks are private owned banks just like other commercial banks but mainly coordinate the commercial banks activities. For instance the Bank of England was one of the famous central banks that started operating in 17th century but was only taken over by the government in1947 as it was stated by Lipsey in his book. Central banks have evolved over the years in terms of non-government and government entities and served various purposes up today. In his article posted in www.investopedia.com, Reem Heakal depicted two main functions played by central banks which are macroeconomic and microeconomic functions. In the next lines let us discuss these two main functions.

1. Macroeconomic Functions

Central banks play the following roles and functions:

- It acts as a regulatory body of inflation control.
- Control money supplies in the economy.
- Enact and implement monetary policy.
- Control interest rate.
- Central bank has the ability through various instruments to increase and decrease the amount of money in the circulation.

Some additional functions depicted by Lipsey are followed:

- Central banks regulates money market.
- It acts as banker for the government by selling and buying government bonds; keeping and holding government accounts to allow government deposit and borrowing.

2. Microeconomic Functions.

Central banks play various microeconomic roles described by Heakal which will be highlighted below:

- Central banks act as bankers for commercial bank. They play the role of lender of last resort in case of cash deficit of commercial bank.

- Central banks hold commercial banks money reserves based on a ratio of each commercial bank's deposit.
- It regulates commercial banks activities by enforcing a policy of commercial banks reserves which is another means to control money supply in the economy, though some do not require commercial banks to deposit reserves, e.g. Bank of England.

The paper will conclude the functions of central bank by repeating the concluding statement made by Reem Heakal in his article that summarises the full functions and roles that central bank plays in the life of any economy. He says: "*Central banks are responsible for overseeing the monetary system for a nation (or group of nations), along with a wide range of other responsibilities, from overseeing monetary policy to implementing specific goals such as currency stability, low inflation and full employment. The role of the central bank has grown in importance over time, but in U.S., its activities continue to evolve."*

Money has been the central focal point of this paper. The birth of money itself gave birth to commercial bank and central bank. After having gone through so many processes; issuing this precious commodity from gold to paper money and coins in the modern economy, the question remains the same and needs to be answered, how does central issue money in the economy?

Money Supply in the Economy

In the early birth of money especially over the period of gold standard, the supply of money is simply backed by the amount of gold in the reserves and kept by banks and central banks. We all know that many countries or all countries have abandoned the gold standard of their currency and made it '*legal tender'* rather than '*gold standard*'. It is not just then obvious that how fiat money which is used by all countries get into the economy. Based on the central bank functions, we all know now that it comes from central bank but how? is the question. The paper will focus more on the US Federal Reserve nicknamed Fed way of money supply into the economy which is not far different from other central banks across the globe. The reason of this choice is because personally, the US has proved over the centuries of being the most stable and growing economy around the globe or so to speak has one of the most efficient monetary policies around the globe.

Money injection is an economy needs careful and scientific financial and monetary control. No government does just dump a specific amount of money in any economy carelessly. The process needs to follow a rigorous monetary due processes and policies. As one may recall, this paper has already talked about characteristics of money, and some of them which is very important is Noncounterfeitability and limited supply of money. Too much money chasing after few things as it is said in the world of economics brings about inflation which is one of the worst side effects of bad economy. In the next paragraphs, we will find out how much money finds its way into the economy and into the hand of people.

Before discussing money supply into the economy, the paper will first talked about types of money which are classified as “M”s that are ranged from M1 narrowest to M3 broadest. These as Lipsey says in his book economics are the three main measures of the money supply. Lipsey put them in a clear and concise manner the nature of each “M” in his book on page 597 article he quoted from *Economic Report of the President, 1998* which highlights the nature of the “M's.

> *“The three widely used measures of money supply are M1, M2, and M3. The narrow definition of the money supply concentrates on what can be used directly as a medium of exchange. The broader definitions add in the deposits that serve the store-of-value function and can be readily converted to a medium of exchange.*
> *Note that M1 includes traveller's checks held by the public, which are clearly a medium of exchange. Within M3, repurchase agreements are funds lent out on the overnight money market, and Eurodollars are U.S. dollar-denominated deposits in U.S. banks located outside the United States. M2 and M3 include similar items, with the difference in most cases being that the term deposits are in M3 and the demand deposits in M2*.”

Having discussed the Ms measures of money supply, let see in which circumstances Fed supplies money into the economy and how.
An article published by Ryan McFarland on www.mint.com/blog/trends/how-money -finds-its-way-into-the-economy/ will sum it up all. According to him the following ways are used by the government to inject money into the economy:

- **The Internal Revenue Services**.

The main revenue for any government is from various taxes imposed by the government that needs to collect money in hand of people first before redistributing it. Various taxes are used to reach this objective of collecting revenue from public and are: corporate income tax, gift taxes, employment taxes, exercise taxes, estate taxes, and capital gains on investment income taxes. The government collects money then injects it using the following channels.

- **Subsidies.**

Many governments tend to subsidise some products or services through some industries and companies that produce them. In education, government subsidize schools to cater for free education expenses or reduce in school fees. Government subsidize farmers to cut the production or produce more specific types of products. By so doing it injects money in the economy by paying them in cash which they use in turn to make purchases henceforth supplying money in the hand of various people.

- **Government Contracts.**

The infrastructure in every country is the sole responsibility of the government. Building roads, schools, hospitals, bridges, government owned towers, etc… are done by the government. The fact is that these public works are carried out by private enterprises that

get the contract through competitive bids. These contractors are paid through government coffers that in turn use the money for various needed materials, paying labourers and in process allow the distribution of money in the hands of various people. Government's contracts are of huge amount of money which Ryan confirms by saying "*Between construction, administrative processing and defense, hundreds of billions of dollars are awarded by government contract every year.*" For the purposes of injecting money in the economy, many governments around the globe, put in each fiscal budget enormous amount of money for infrastructure budget line. In recent period the U.S. President Obama during his address on 2009 economic stimulus for fixing and making the economy grow, talked about government public works in road, bridges and schools building. He says in the statement below published on www.Freefrombroke.com/2009/01/obama-2009-economic-stimulus-plan-gonna-big.html
"The administration will look to give money to projects that have a plan to move us away from being energy dependent on other countries as well as projects to help build up schools. If done correctly this could be similar to what was achieved under FDR where many buildings and schools were built during the depression that are in use today."
The statement above comes to confirm government ways of boosting the economy by involving himself in huge public works as indicated above, the manner of injecting money in the economy in order to give quality of life to the citizens which is the primary definition of economic growth.

Governments go further during economic crisis by stimulating the economy to pick up and get back into the road of growth again. The recent financial crisis forced the US government to be involved in various stimulus spending.

- **Stimulus Spending**

This is another way of government injecting money in the economy. This happens most of the time during the financial and economic crisis that affect the normal economic growth of the nation. During the economic disaster, the government comes into rescue of various industries in problem by allocating fund for them in order to be fully operational again. In the next paragraph this paper will give the accounts of stimulus awards during the great depression and during the 2008 financial disaster. This account is given by Ryan McFarland in article "Money Supply" and I state: "*Perhaps the most famous example of government stimulus spending in the New Deal, enacted by President Franklin Delano Roosevelt between 1933-1935 to offset the crises caused by the Great Depression….Roosevelt's Public Works Administration spent US$ 3.3 billion in taxpayer money paying private companies to build 34,599 projects ranging from dam construction to bridge building, according to Jason Scott Smith's Building New Deal Liberalism: The Political Economy of Public Works.*
A comparable effort to the New Deal is President Barack Obama's 787 billion Recovery and Reinvestment Act of 2009."
This is to say that stimulus award during economic disaster is another substantial way of injecting money into the economy. Personally I have realised and keenly observed that any time the G 20 wanted to boost their economy or the world economy by injecting money, they take slight natural disaster to overemphasize the situation or some create artificial disaster to award stimulus. Since supply of money has to have a strong reason

and base to do so, they use situations to make this intervention, though it is for the goodness of the people but still it does contravene how to control inflation. The question remains still unanswered; where do the governments get this huge kind of money to come into rescue of the economy and undertaking public works that boost the economy? The answer to this question will come into the discussion on the critical role central bank plays.

Central Bank Monetary Policy in Money Supply.

We have already discussed earlier that government collects money from the public through various taxes then use it to inject it back to economy through some means we have already talked about. Once again another question arises which is similar to the one above; does taxes collected enough by the government to undertake all its activities to put money in hand of people? This paper will discuss some concrete ways how money is created by central bank or The Federal Reserve in the case of the U.S.

According to the article 'What Is Money?' posted on www.investopeida.com/articles/basics/03/061303.asp the author talked about how central bank or Fed creates money and controls its supply into the economy. This paper will talk about these ways in a simplified manner for a lay man who will be reading this paper to understand.

- **Printing of Money**

All over the globe, central bank or Fed has the sole authority of printing money. One way to increase the amount of money to avail in the economy is simply printing it. This is not just printing money blindly as some countries did in the past and henceforth plunging their economies into unrecoverable chaos. For instance during the time of Idi Amin rein in Uganda, he ordered the printing of the Ugandan Shilling. This has reduced the value the country's currency up to date against many other ones. The most recent case is the case of Zimbabwe where the Reserve bank of Zimbabwe printed money uncontrollably plunging the country economy into a hyperinflationary status until it only came under control by adopting US dollar as legal tender. It is obvious that all the paper and coins money each country has are printed and minted by central bank but in a controllable manner. The article the paper referred to earlier on confirms the central bank role in printing of money in the follow way: "*If it wants to increase the amount of money in circulation, the central bank can, of course, simply print it,…*" This method has been the primary way of increasing the amount of money in the hand of people. At the same time the government has it own way to control the printed money in the economy either by reducing or increasing its amount in circulation. Some techniques used by the government are selling and buying its securities.

- **Government Securities**

Central bank is government owned bank and the paper has already highlighted its functions. Some of them is to print money by controlling inflation. Inflation when it is uncontrollably happening destroys the economy. So when there is too much money in the economy it brings about inflation. Though this theory is accepted by some economists

and refuted by others. But common economic maxim that says "too much money chasing few goods" when taken into consideration, one can objectively say that too much money in the economy with low production of goods and services can prompt inflation. Government in collaboration with central bank controls this situation in order to maintain a smooth economic growth. The method it uses is the selling or buying of the government securities such as government bonds, papers etc…The following paragraph taken from the article 'What Is Money' sheds brighter light on how government in collaboration with central bank or Fed does it.

> "*Another way for the central bank to increase the money supply is to buy government fixed income securities in the market. When the central bank buys these government securities, it puts money in the hands of the public. How does a central bank such as the Federal Reserve pay for this? As strange as it sounds, they simply create the money out of thin air and transfer it to those people selling the securities! To shrink the money supply, the central banks does the opposite and sells government securities. The money with which the buyer pays the central bank is essentially taken out of circulation*".

There are other means of the government injecting money by using interest rate manipulation and funding organizations involved in huge amount of funding by giving loans and grants for various types of projects within the economy. This paper to be complete on the money creation, will discuss them next.

- **Interest Rate Manipulation**

Broadly putting it, interest rate is the cost of money. Government's fiscal policy uses interest rate to regulate the level of inflation by controlling money supplies. This type is closely linked to buying and selling of government securities. Lipsey elaborated it clearly in his book 'Economics' page 335 in the following statement.

> "*Monetary policy involves changing interest rates in order to influence the economy. High interest rates are a symptom of a tight monetary policy. When interest rates are high, firms find it more costly to borrow, and this makes more reluctant to invest. Individuals with mortgages or bank loans are also hit by high interest rates, since cost them more to make their loan repayments. Hence interests rates tend to reduce demand in the economy-firms invest less, and those with mortgages have less to spend. Low interest rates tend to stimulate demand.*"

Interest rates are strong tool for government to control money supply. With high interest rates, government is making individuals and firms with loans to pay more money on the principal. In essence withdrawing more money from the economy. This is to reduce the amount of physical money from the economy and henceforth controlling people spending then finally regulating inflation rate in the economy. Low interest rate works in the opposite direction. People and firms use less money to repay their loans. They can demand more of loans and mortgages from banks which culminate in having more money in the economy or is in the hand of people. By so doing, government injects money in the economy.

Government is the central focal point for regulating the economy of the country. In fact their main role is to do so. Rather than using macroeconomics techniques to regulate

money supply, government uses many international agencies (UN agencies; Humanitarian Agencies, etc..) which it funds to inject money in the economy. This is an area that has been ignored by economics, and this paper wants point it out. Some of the most important of these agencies are World Bank (WB) and its several bodies, Africa Development Bank (AfDB), African Capacity Building Foundation (ACBF) where I am currently working; play very essential functions in injecting money in various countries' economy. The next paragraphs will discuss how these agencies play essential role in injecting money in the economy.

- **World Bank**

Originally called the International bank for reconstruction and Development (IBRD), it was founded aftermath of the World War II in 1944 during the meeting by 44 nations at Breton Woods, New Hampshire. Currently the number of nation's membership has increased to 178 and only 12 nations are not members. Having briefly talked about the historical account of the World Bank, let see where it does get its funds from? We know that only central bank is involved in the printing and regulating of money in the economy. World Bank does not print money, but it stands as the bank that has a lot of money in its reserves.

The World Bank primary source of money comes from members' contributions which depend on the size of their economies. In the article World Bank and economic Growth: 50 years of Failure downloaded from www.heritage.org says "*World Bank members provide contributions based on the size of their economies. The larger and wealthier the economy, the more the country is likely to give.*" According to the same article, The U.S. is the largest contributor. It says "*The United States is the largest contributor, providing some $ 53 billion since 1944. Even though the U.S. has reduced its funding as a percentage of the Bank's total deposits from 29.3 percent in 1965 to 17.5 percent in 1995, it remains the bank's largest donor and has pledged more money to the bank than any other country.*"

Having known the origins of the World Bank money, what does it do with all these moneys? The answer to this question is found on the role the bank plays in economic growth:

- The Bank is the lender of the last resort. World Bank has loaned countries ravaged by the World War II for reconstruction. That was the primary objective of the Bank.
- Today, World Bank gives loans to all countries around the globe for huge public works such as road, dam, and bridges construction, electrical plant construction; huge and heavy industrial plant establishment etc..
- The Bank gives grant for some humanitarians' causes as well.

The above role of the Bank comes hand in hand to confirm how government injects money in the economy through heavy public works. This is to draw a conclusion that World Bank does this across the globe while the individual countries do this through their government within their nation. By loaning and giving grants, the Bank puts money in

hand of people. Knowing such works are done by individuals, suppliers, enterprises et.. this is to put money in their hand. The same role activities are done by others such as African Development Bank, Asian Development Bank. In conclusion one may say these agencies are co-injector of money into the economy side by side with individual governments.

For vivid reality that I personally experienced, I should talk about the Organisation where I am currently working, to confirm the important roles these international agencies play in money supply.

- **The African Capacity Building Foundation (ACBF)**

ACBF is created by joint collaboration of the World Bank, UNDP, and AfDB together with African governments. The aim is to foster capacity building in economic policy management, financial and administration management, in statistics, civil society. This ACBF does by giving grants to African governments and civil society projects and programs. By approving such projects and programs, ACBF gives funds to them; funds which are disbursed on non-specific instalments to undertake activities patterning to capacity building in Africa. ACBF disburses million of US dollar to these projects every year to pay consultants for activities done, pay for institutional support, pay for scholarships, pay for projects and program employees, pay capital expenses for the implementing bodies. These are another sure way of injecting money into various African countries economies. This briefly talking about the role ACBF plays in injecting money in the economies around Africa and into some extent around the globe. This ACBF does as well through other means which the paper cannot go into details. Other humanitarian agencies follow the footsteps of ACBF by playing the same role on other scale. Some of them are World Vision, Oxfam, Red Cross, DANIDA, and so many developed countries donor funding projects and program across least developed countries of Africa and Latin America.
These agencies play very important functions in injecting billions of dollars into various economies over the year. This is a silent money supply that economists need to think about.

This paper dwelt a lots on various ways of money supply and control into the economies. The mains functions come from central bank to commercial bank then to World Bank and so many other donor funding agencies.

Conclusion

Money is the most important commodity around the world and other commodities are pegged against it. Its search and creation started since the ancient time. The early people have seen its essential involvement in doing business with perfect efficiency. The history of the invention of money has been depicted by this paper. Not only money has been invented but it has given room to the birth of commercial banks, central bank or Federal Reserves, World Bank and other financial institution which are involved in transacting money.

Money is alive today and will continue to be because its plays the function of medium of exchange, store of value, and units of accounts. Functions which are very crucial in the business world today.

For a commodity to be taxed as money it has to respond to specific characteristics such as characteristics of durability, transportability, divisibility and noncounterfeitability and this paper largely discussed them.

People need money for various reasons, among them is precautionary, transaction and speculative purposes.

The invention of money gave birth to commercial banks which supplement the function of central bank that became the sole authority of printing of money and controlling its supply into the economy. The activities of both types of banks started in the ancient time and evolved over the years. The modern money and banking system have drastically changed making business more user friendly.

The injection of money in the economy follows monetary policy drawn and implemented by central bank and the government. Money supply follows the set laws in order to avoid inflation that damages an economy as it were in many cases especially in African and Latin American countries. The supply of money is assisted by many international agencies that play a tacit role that is not very identified by the economists so far. Microfinance Society, credit and saving company, asset Management Company, real estate Company etc are other financial institutions that play this important role of supply and control of money in the economy which the paper could not go into their details functions.

Money is the most precious commodity and is the driver of all transactions around the globe. It is driving mankind, institutions, and government mad. The reason why money drives people, countries, organizations, companies, and politicians will be another field of psychological connotation of money which can be a wide range of research open to be conducted.

The paper discussed money on economics point of view only. Money and banking system is engine that moves an economy high or low depending on its control measures by the government.

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