Answer Key Think-pair-share: Functions of money

The three functions of money are:

1. Medium of exchange: use item to buy goods and services
2. Store of value: use item to transfer purchasing power to the future
3. Unit of account: use item to denote prices and debts

List of items:

1. US dollar
   1. Fulfills all three functions of money well in the US economy
2. Mexican peso
   1. May fulfill medium of exchange in some places such as border towns between US and Mexico border but generally the peso does not fulfill the medium of exchange function.
   2. Partially fulfills store of value because it can be exchanged later for US dollars.
   3. Does not fulfill unit of account; prices in US are not denominated in pesos.
3. Chuck-e-Cheese token
   1. Partially fulfills medium of exchange but only at Chuck-e-Cheese. You can use the token at the restaurant to play games. The tokens do not generally fulfill the medium of exchange function.
   2. Partially fulfills store of value because you can save tokens and use them during your next trip to Chuck-e-Cheese. The tokens do not generally fulfill the store of value function.
   3. Does not fulfill unit of account; prices in US are not denominated in tokens.
4. Cigarettes
   1. Does not fulfill three functions of money in the US economy but may perform all three functions in a closed economy such as a prison.
5. Gold
   1. Does not fulfill medium of exchange.
   2. Partially fulfills the store of value because it may be sold in the future for US dollars.
   3. Does not fulfill unit of account because prices are not denominated in ounces of gold.
6. Prepaid card
   1. Fulfills medium of exchange at the stores that accept it. Not all stores may accept it.
   2. Fulfills store of value for consumer as it allows her to purchase items in the future.
   3. Does not fulfill unit of account because prices are not denominated in prepaid cards.
7. Antique vase
   1. Does not fulfill medium of exchange.
   2. Partially fulfills the store of value because it may be sold in the future for US dollars.
   3. Does not fulfill unit of account because prices are not denominated in vases.
8. US government bond
   1. Does not fulfill medium of exchange.
   2. Partially fulfills the store of value because it may be sold in the future for US dollars.
   3. Does not fulfill unit of account because prices are not denominated in bonds.