

Purchasing Power





The Value of Money

A \$100 bill and a \$1 bill use the same kind of paper and ink. The paper used for both bills also has the same value, and both bills cost the same amount to print. However, \$100 bills and \$1 bills have different values. It takes more work to earn a \$100 bill than a \$1 bill. A \$100 bill can buy more than a \$1 bill can buy.

The word currency describes the paper money and coins that are “current” in a country. Before the 1930s, countries needed to have an amount of gold that equaled the amount of currency they printed. Gold is no longer needed to back up the currency that countries print. However, if a country prints too much currency, other countries may value it less.

Key Notes:

What does the word *currency* mean?

Every country has money, or currency, in the form of paper or coins.



The Japanese coin is circulated in yen.

Dollars, Pesos, and Yen

Each country's government controls the value of the money it circulates. In the United States, the unit of money we circulate is the dollar. Mexico circulates its currency in pesos, and Japan circulates its currency in yen. When people visit other countries or do business around the world, they must exchange their country's money for the money of the country they visit or do business in.

The value of one country's currency compared to the value of another country's currency is called the exchange rate. The exchange rate is the amount of money a person receives for exchanging one country's currency for another country's currency. Exchange rates change from day to day. In the first part of 2006, one U.S. dollar was worth 117 yen or nearly 11 pesos.

Key Notes:

What does *circulate* mean in this passage?



The euro is the official currency of several different countries.

A Common Currency

The countries in Europe, such as Germany, France, and Italy, are close together. However, until 2002, these three countries used different currencies. Travelers exchanged German marks for French francs, or French francs for Italian Lira.

In 2002, Germany, France, Italy, and nine other European countries began using the same currency. This new currency was called the euro. Euro banknotes, or paper money, look the same in all European Union countries. Euro coins, though, look the same on only one side. Each country uses its own design on the other side.

The single currency has made it easier to travel and do business in the European Union. As of 2005, only three countries in the European Union did not use the euro. Instead, each country continued to use its own currency.

Key Notes:

How did the euro change the way people travel in Europe?



Consumers in the United States like the convenience of credit cards.

Credit Cards

In 1950, people in the United States had a new way to purchase things, credit cards. Today, many people use credit cards to purchase goods. To get a credit card, people apply to a bank or other financial institution. If their application is accepted, they sign a legal agreement that lists the institution's rules for using the card.

The institution pays for the goods or services a person purchases with a credit card. Then, the person pays the institution back. The institution charges interest, or extra money, for bills the person does not pay right away. Also, there is often a fee for using the credit card.

Credit cards are convenient, but they can also be costly. The interest on unpaid bills can make things cost much more than their original price.

Key Notes:

What or who pays for a purchase when a credit card is used?

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