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*Metallic, Paper, Credit Currency: And the Means of Regulating Their Quantity and Value [James Whatman Bosanquet] on theinnatdunvilla.com *FREE* shipping on qualifying offers. This is an EXACT reproduction of a book published before*

With the drawbacks of commodity money and with economic advancement of the people, metals came to be used as money. This existed during the town economy stage or during the pre-machine age. In the beginning iron, copper, tin, bronze, nickel, lead, gold, silver etc were used. The final choice however was in favour of gold and silver due to their scarcity. Initially pieces of gold and silver of different sizes and shapes were used. Therefore metals which served as money were Gold, Silver, and Copper etc. In recent times baser metals like aluminum etc are used. Advantages of metallic money- 1 It had all the qualities of good money 2 Durable. Due to these characteristics metals served as an excellent medium of exchange. Disadvantages of metallic money â€" 1 Necessary to carry in bulk in case of large transactions. III Metallic coins- â€" Due to the drawbacks of metallic money, metallic coins were introduced. Introduction of metallic coins is considered to be an important stage in the evolution of the modern monetary system. Metallic coins were introduced by the kings resulted in the development of the coinage system which removed the imperfections of metallic money. Historically, coins were first minted in 5th century B C during the later part of the town economy. It is believed that coins were first minted and introduced by the private bankers, goldsmiths, sahukars etc. Coins came to be accepted at face value. Coins were introduced in different denominations and therefore were useful in all kinds of transactions. The history of the monetary system reveals that till the beginning of the First World War , a large portion of the world metallic money consisted of coins made of gold and silver. The coins of lower denominations were made of inferior and lighter metals like copper nickel etc. In the early 20th century only gold was used and still later coins of baser metals like nickel came to be used. With the passage of time the monetary system was taken over by the government with a view to making coins uniform and giving them a legal status. This also gave them a general acceptability. The right of minting coins is the monopoly of the state. Later the job of minting coins was taken up by the government to bring about uniformity of coins. Money issued by the government is known as legal tender money. Advantages of metallic coins- 1 Stamps of rulers therefore generally accepted. Disadvantages of metallic coins - 1 Not easily portable and jingle while carrying.

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What are the Forms of Money in a Modern Economy? In the modern monetary systems, there are three forms of money in actual use: The first two kinds of money are in the form of currency money and the last one is credit or bank money. Metallic money refers to coins made out of various metals like gold, silver, bronze, nickel, etc. A coin is a piece of metal of a given size, shape, weight and fineness whose value is certified by the State. The right of minting coins is the monopoly of the State. The department of government minting coins is called the Mint. Coins are of two types: A coin is regarded as a standard coin or full-bodied coin if its "face value" i. In the past, coins made from precious metals like gold and silver were regarded as standard coins and the monetary systems adopting them were referred to as "gold and silver standards. They are generally of lower denominations. Token coins are issued primarily as a form of subsidiary money which is to be used for small change only. They are useful as a convenient means for the payment of small sums. Since all types of coins are issued by the state authorities either the Treasury or the Central Bank of the country they are regarded as legal tender. Standard coins are, however, unlimited legal tender in the sense that they are acceptable of a means of payment of up to any amount, while token coins are limited legal tender as payments can be made up to a small sum only. Paper money consists of currency notes issued by the State Treasury or the Central Bank of the country. In India, one rupee notes are issued by the Minister of Finance of the Government of India, while all other currency notes of higher denominations are issued by the Reserve Bank of India. In modern era, the use of paper money is widespread owing to its following advantages: Paper money is economical. Obviously, paper is much cheaper than any metal. Paper money economises the use of precious and scarce metals by serving as representative money. It is very convenient to carry paper money from place to place. It is also easy to store paper notes. Currency notes of lakhs of rupees can be stored in a small vault. It is easier to count paper notes than metallic coins. Supply of paper money is easily adjustable as per the need of the economy. Thus, paper money is of great monetary and fiscal advantages to the government. However, paper money has also some disadvantages such as: There is the danger of over issue of notes as they can be easily printed and their supply depends upon the whim of the government. An excessive money supply may lead to rising prices or inflation thereby reducing the value purchasing power of money. Paper money lacks general acceptability if the people lose confidence in the government for one reason or the other. Durability of paper money is much less than metallic money. Paper money can circulate within the domestic economy only. For making foreign exchange payments, paper money is not acceptable unless it is a key currency like the dollar. But these disadvantages are surmountable and controllable by a proper check. Therefore, paper money is in wide circulation. In modern economic societies, with the development of banking activity, along with paper money, another form of convertible money has developed in the form of credit money or bank money. Bank demand deposits, withdrawal by issuing cheques, have started functioning as money, and cheques are now conventionally accepted as a mode of payment by the business community in general. It must be noted that a cheque by itself is just a credit instrument. Actually it is the bank deposit behind the cheque that serves as money. Bank money today constitutes a major part of money supply in advanced countries. In many countries such as America, it amounts to nearly 90 per cent of the total money supply. In poor countries, the proportion of currency money widely exceeds that of bank money. Indeed, in a modern economy, currency money and bank money together constitute the total stock of money or money supply. Currency money is a legal tender and has general acceptability, whereas bank deposits are conventional money and lack general acceptability. In fact, though the use of money has become all pervasive throughout the world, certain backward areas are still non-monetised. Barter is, therefore, not completely obsolete. In India, for instance, some Adivasi areas are still unfamiliar to the use of money.

Chapter 3 : Metallism - Wikipedia

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But perhaps the most important distinction to be made in our era is between metallic money and credit money. Longtime correspondent Jeff W. We use credit money every day. But because people in Europe and America have historically used metallic money for over 2, years, we still have cultural habits that come from the gold money era. But the thing that the paper money represented changed dramatically. The paper money now represents units of credit money that have no guaranteed relationship with the prices of gold or silve r or anything else. Because the nature of credit money and metallic money are not well understood, and because money is so important in our lives, it is worthwhile to examine and discuss how these two kinds of money are different. A gold or silver coin is a physical object that has weight, volume and physical characteristics. Credit money is a record of the existence of a debt. Credit money exists in the intangible world of information and human relationships. Gold coins are minted; debts are recorded. The two forms of money could hardly be more dissimilar. Metallic money has been used by people for about 2, years. It has been used sporadically and in certain places. Credit money has been used for at least 5, years, when people first started recording debts on clay tablets, pieces of wood or ivory, etc. Before debts were recorded in writing, they were, in prehistoric times, discussed verbally, remembered, and sometimes traded in verbal transactions. This is how very primitive people still trade using debt today. Some gold coins more than 2, years old are still in existence today. But it would be very rare for any performing loans to be more than years old, and many loans are of very short duration. Much of the U. Where gold coins can last for thousands of years, debts are constantly coming into existence and going out of existence. Hard to create vs. To create a gold coin, someone has to first mine the gold from the earth, refine it, mill it, stamp it into circular shapes and then stamp the governmental pattern on it. To create a piece of credit money, a debt has to be created and then a piece of paper printed or a record created on a computer. Anyone who has no intention of paying back his debt, such as the Federal government, can potentially issue debt in infinite amounts. There is an issue of whether that debt is worth anything, however. A gold coin that is legal tender will always be accepted as money. With credit money, some of it is good and some of it is bad. All circulating debt has a mixture of good and bad. Most debt specifies interest payments as part of the loan agreement. The Federal Reserve notes we use as money are claims on interest-bearing debt owned by the Federal Reserve. Credit money has the quality that there is a continuing flow of interest payments away from the users of money in the general population and toward creditors. There is no such continued flow of wealth from debtors to creditors in a gold money system. Does not need money supply expansion vs. Because interest payments are constantly flowing out from families, businesses and communities to financial centers and wealthy creditors, credit money results in economic sluggishness unless there is a constant expansion of the supply of credit money. Under a gold money system, people can function much better with a constant money supply because there is no leakage of interest payments. Each community can continue to circulate its own holdings of gold money without having to pay any of it out in the form of interest payments. Government does not need to enable creating more debt vs. In order to keep a credit money economy going, more debt must be continually created. Government and financial leaders who do not want to be blamed for a downward spiral of slowing economic activity must see to it that more debt is constantly being created. Under a gold money system, there is no pressure to constantly increase the burden of debt. Not as bubble prone vs. The fractional reserve method of banking encourages asset bubbles because new money is created as borrowers take out new loans. When people borrow money to buy bubble assets e. Many asset bubbles were also created during the gold money era due to fractional reserve banking, but where the unit of currency is guaranteed by government to be equal to a fixed weight in gold, the inflation threat is taken out of the picture and that restrains bubble creation somewhat. To support the value of their currencies under a gold money system, governments must also often raise interest rates in order to encourage investors to sell gold in exchange for bonds paying good interest. Higher interest rates also discourage the formation of asset bubbles. Does not enable ZIRP vs. A zero interest rate policy is impossibl e under a gold money system. Under a credit money system a policy of low interest rates and financial repression can be imposed for an indefinite period of time. Does not increase lending activity vs. Low interest rates and the ease with which credit money is created lead to increased lending activity and higher debt loads. Under a gold money system, debt will necessarily be created at a slower rate. By stepping up the pace of debt creation, a credit money system serves the interests of the banks. Has no problem with debt saturation vs. Continually increasing debt leads ultimately to debt saturation. That leads to stagnation and slowing economic activity in a credit money system. A gold money system does not tend to lead to debt saturation and has no similar problems with debt saturation. Increases wealth disparities vs. The higher debt load facilitated by a credit money system results in greater flows of wealth from the debtor class to the creditor class. The higher debt load leads to increased disparities in income, more very poor and very rich and fewer of the middle class. Holds its value vs. Gold-backed currencies have an excellent track record of holding their value. Credit money tends to inflation, the rate of which largely depends on how fast new debt is being created. Government as a guarantor of savings vs. One of the three functions of money is as a store of value. The others are a medium of exchange and a unit of account. Defaulters are bad vs. In a gold money system, a person who takes out a loan and does not repay it is considered a bad person, almost a thief. He has robbed his creditors of the money they were rightfully owed. In a credit money system, however, the creation of new debt is so important that anyone who goes into debt is a hero of the economy. That is why under a debt money system, it is considered more important that new debt be created e. As we see, it is no exaggeration to say that the transition from gold money to credit money changes everything. It changes the power relationships within society. It changes the patterns of ownership and wealth accumulation. It is very important that citizens and investors understand the credit money system that they are trying to operate within. For people with over 2, years of experience with gold money, it is difficult to understand it and get used to it. But anyone who does understand it will be better off because of making better-informed decisions. We might as well get used to it because we shall likely have to live with a credit money system for a very long time. The key distinction of all these important distinctions is the ephemeral nature of credit-money and any form of fiat currency. History teaches us that a financial-political crisis of sufficient magnitude reveals the underlying value of credit-money--i. As correspondent Harun I. Equally, they cannot perpetually borrow exponentially more. This one last bubble cannot end but it must.

Chapter 4 : III) Metallic money | Econleaks

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One of the principal subfields of contemporary economics concerns money, which should not be surprising since one of the oldest, most widely accepted functions of government is control over this basic medium of exchange. The dramatic effects of changes in the quantity of moneyâ€¦ Functions of money The basic function of money is to enable buying to be separated from selling, thus permitting trade to take place without the so-called double coincidence of barter. In principle, credit could perform this function, but, before extending credit, the seller would want to know about the prospects of repayment. That requires much more information about the buyer and imposes costs of information and verification that the use of money avoids. If a person has something to sell and wants something else in return, the use of money avoids the need to search for someone able and willing to make the desired exchange of items. The importance of this function of money is dramatically illustrated by the experience of Germany just after World War II, when paper money was rendered largely useless because of price controls that were enforced effectively by the American, French, and British armies of occupation. Money rapidly lost its value. They resorted to barter or to other inefficient money substitutes such as cigarettes. Price controls reduced incentives to produce. At the same time, the reform eliminated all price controls, thereby permitting a money economy to replace a barter economy. Separation of the act of sale from the act of purchase requires the existence of something that will be generally accepted in payment. But there must also be something that can serve as a temporary store of purchasing power, in which the seller holds the proceeds in the interim between the sale and the subsequent purchase or from which the buyer can extract the general purchasing power with which to pay for what is bought. In fact, the wide use of cattle as money in primitive times survives in the word pecuniary, which comes from the Latin pecus, meaning cattle. The development of money has been marked by repeated innovations in the objects used as money. Wampum beads made from shells by the Montauk people of North America. Nativestock Pictures Metallic money Metals have been used as money throughout history. As Aristotle observed, the various necessities of life are not easily carried about; hence people agreed to employ in their dealings with each other something that was intrinsically useful and easily applicable to the purposes of lifeâ€"for example, iron, silver, and the like. The value of the metal was at first measured by weight, but in time governments or sovereigns put a stamp upon it to avoid the trouble of weighing it and to make the value known at sight. The use of metal for money can be traced back to Babylon more than years bc, but standardization and certification in the form of coinage did not occur except perhaps in isolated instances until the 7th century bc. Historians generally ascribe the first use of coined money to Croesus , king of Lydia , a state in Anatolia. The earliest coins were made of electrum , a natural mixture of gold and silver , and were crude, bean-shaped ingots bearing a primitive punch mark certifying to either weight or fineness or both. In time the coins became lighter and lighter and prices higher and higher. As a means of correcting this problem, payment by weight would be resumed for large transactions, and there would be pressure for recoinage. A more serious problem occurred when the sovereign would attempt to benefit from the monopoly of coinage. In this respect, Greek and Roman experience offers an interesting contrast. Solon , on taking office in Athens in bc, did institute a partial debasement of the currency. For the next four centuries until the absorption of Greece into the Roman Empire the Athenian drachma had an almost constant silver content 67 grains of fine silver until Alexander, 65 grains thereafter and became the standard coin of trade in Greece and in much of Asia and Europe as well. Even after the Roman conquest of the Mediterranean peninsula in roughly the 2nd century bc, the drachma continued to be minted and widely used. The Roman experience was very different. Not long after the silver denarius , patterned after the Greek drachma, was introduced about bc, the prior copper coinage aes, or libra began to be debased until, by the onset of the empire, its weight had been reduced from 1 pound about grams to half an ounce about 15 grams. By contrast the silver denarius and the gold aureus introduced about 87 bc suffered only minor debasement until the time of Nero ad 54 , when almost continuous tampering with the coinage began. The metal content of the gold and silver coins was reduced, while the proportion of alloy was increased to three-fourths or more of its weight. Paper money Experience had shown that carrying large quantities of gold, silver, or other metals proved inconvenient and risked loss or theft. The first use of paper money occurred in China more than 1, years ago. By the late 18th and early 19th centuries paper money and banknotes had spread to other parts of the world. The bulk of the money in use came to consist not of actual gold or silver but of fiduciary moneyâ€"promises to pay specified amounts of gold and silver. These promises were initially issued by individuals or companies as banknotes or as the transferable book entries that came to be called deposits. Although deposits and banknotes began as claims to gold or silver on deposit at a bank or with a merchant, this later changed. Knowing that everyone would not claim his or her balance at once, the banker or merchant could issue more claims to the gold and silver than the amount held in safekeeping. Bankers could then invest the difference or lend it at interest. In periods of distress, however, when borrowers did not repay their loans or in case of overissue, the banks could fail. Gradually, governments assumed a supervisory role. They specified legal tender, defining the type of payment that legally discharged a debt when offered to the creditor and that could be used to pay taxes. Governments also set the weight and metallic composition of coins. The first large-scale issue of paper money in a Western country occurred in France in the early 18th century. Subsequently, the French Revolutionary government issued assignats from to Similarly, the American colonies and later the Continental Congress issued bills of credit that could be used in making payments. Yet these and other early experiments gave fiat money a deservedly bad name. The money was overissued, and prices rose drastically until the money became worthless or was redeemed in metallic money or promises to pay metallic money at a small fraction of its initial value. Subsequent issues of fiat money in the major countries during the 19th century were temporary departures from a metallic standard. In Great Britain, for example, the government suspended payment of gold for all outstanding banknotes during the Napoleonic Wars â€" To finance the war, the government issued fiat paper money. Prices in Great Britain doubled as a result, and gold coin and bullion became more expensive in terms of paper. To restore the gold standard at the former gold price, the government deflated the price level by reducing the quantity of money. In Great Britain restored the gold standard. Similarly, during the American Civil War the U. Episodes of this kind, which were repeated in many countries, convinced the public that war brings inflation and that the aftermath of war brings deflation and depression. This sequence is not inevitable. It reflected 19th-century experience under metallic money standards. Typically, wars required increased government spending and budget deficits. Governments suspended the metallic gold standard and financed their deficits by borrowing and printing paper money. Throughout history, the price of gold would be far above its prewar value when wartime spending and inflation ended. To restore the metallic standard to the prewar price of gold in paper money, prices quoted in paper money had to fall. After World War I, the British and the United States governments forced prices to fall, but many other countries devalued their currencies against gold. After World War II, all major countries accepted the higher wartime price level, and most devalued their currencies to avoid deflation and depression. The widespread use of paper money brought other problems. Since the cost of producing paper money is far lower than its exchange value, forgery is common it cost about 4 cents to produce one piece of U. Later the development of copying machines necessitated changes in paper and the use of metallic strips and other devices to make forgery more difficult. In addition, the use of machines to identify, count, or change currency increased the need for tests to identify genuine currency. As governments came increasingly to take over the coinage and especially as fiduciary money was introduced, they specified their nominal face value monetary units in terms of fixed weights of either silver or gold. Some adopted a national bimetallic standard, with fixed weights for both gold and silver based on their relative values on a given dateâ€"for example, 15 ounces of silver equal 1 ounce of gold see bimetallism. If, for example, the quantity of silver designated as the monetary equivalent of 1 ounce of gold 15 to 1 was less than the quantity that could be purchased in the market for 1 ounce of gold say 16 to 1 , no one would bring gold to be coined. Holders of gold could instead profit by buying silver in the market, receiving 16 ounces for each ounce of gold; they would then take 15 ounces of silver to the mint to be coined and accept payment in gold. Continuing this profitable exchange drained gold from the mint, leaving the mint with silver coinage. This happened in most of the countries of Europe, so that by the early 19th century all were effectively on a silver standard. In Britain

, on the other hand, the ratio established in the 18th century on the advice of Sir Isaac Newton , then serving as master of the mint, overvalued gold and therefore led to an effective gold standard. In the United States a ratio of 15 ounces of silver to 1 ounce of gold was set in This ratio overvalued silver, so silver became the standard. Then in the ratio was altered to 16 to 1, which overvalued gold, so gold again became the standard. This price change, plus the dominance of Britain in international finance, led to a widespread shift from a silver standard to a gold standard. By the final decades of the century, silver remained dominant only in the Far East China, in particular. Elsewhere the gold standard reigned. See also Free Silver Movement. The early 20th century was the great era of the international gold standard. Gold coins circulated in most of the world; paper money, whether issued by private banks or by governments, was convertible on demand into gold coins or gold bullion at an official price with perhaps the addition of a small fee , while bank deposits were convertible into either gold coin or paper currency that was itself convertible into gold. Currencies were exchanged at a fixed price into the currency of another country usually the British pound sterling that was itself convertible into gold. The prevalence of the gold standard meant that there was, in effect, a single world money called by different names in different countries. A British pound sterling was defined as Accordingly, 1 British pound equaled 4. The actual exchange rate could deviate from this value only by an amount that corresponded to the cost of shipping gold. If the price of the pound sterling in terms of dollars greatly exceeded this parity price in the foreign exchange market , someone in New York City who had a debt to pay in London might find that, rather than buying the needed pounds on the market, it was cheaper to get gold for dollars at a bank or from the U. The potential for such an exchange set an upper limit to the exchange rate. Similarly, the cost of shipping gold from Britain to the United States set a lower limit. These limits were known as the gold points. Under such an international gold standard, the quantity of money in each country was determined by an adjustment process known as the price-specie-flow adjustment mechanism. This process, analyzed by 18th- and 19th-century economists such as David Hume , John Stuart Mill , and Henry Thornton , occurred as follows: This rise in prices would consequently discourage exports while encouraging imports. The decreased supply of foreign currency from the sale of fewer exports plus the increased demand for foreign currency to pay for imports would tend to raise the price of foreign currency in terms of domestic currency. As soon as this price hit the upper gold point, gold would be shipped out of the country to other countries.

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When the current bubble bursts, the difference between metallic money and credit money will be starkly visible: no one will trade gold or silver for any amount of paper/credit money, and the ephemeral financial instruments ("assets") that dominate today's financial system will be revealed for what they are: phantom promises of value.

History of money Paper currency first developed in Tang Dynasty China during the 7th century, although true paper money did not appear until the 11th century, during the Song Dynasty. The usage of paper currency later spread throughout the Mongol Empire. European explorers like Marco Polo introduced the concept in Europe during the 13th century. The perception of banknotes as money has evolved over time. Originally, money was based on precious metals. Banknotes were seen by some as an I. With the removal of precious metals from the monetary system, banknotes evolved into pure fiat money. List of Chinese inventions , Economy of the Song Dynasty , and Jiaozi currency Development of the banknote began in the Tang Dynasty during the 7th century, with local issues of paper currency, although true paper money did not appear until the 11th century, during the Song Dynasty. Several coins could be strung together on a rope. Merchants in China, if they became rich enough, found that their strings of coins were too heavy to carry around easily. To solve this problem, coins were often left with a trustworthy person, and the merchant was given a slip of paper recording how much money they had with that person. If they showed the paper to that person, they could regain their money. Eventually, the Song Dynasty paper money called " jiaozi " originated from these promissory notes. By the Song Dynasty , short of copper for striking coins, issued the first generally circulating notes. A note is a promise to redeem later for some other object of value, usually specie. The issue of credit notes is often for a limited duration, and at some discount to the promised amount later. The jiaozi nevertheless did not replace coins during the Song Dynasty; paper money was used alongside the coins. The central government soon observed the economic advantages of printing paper money, issuing a monopoly right of several of the deposit shops to the issuance of these certificates of deposit. Even before this point, the Song government was amassing large amounts of paper tribute. For the printing of paper money alone, the Song court established several government-run factories in the cities of Huizhou ,[which? The original notes during the Yuan Dynasty were restricted in area and duration as in the Song Dynasty, but in the later course of the dynasty, facing massive shortages of specie to fund their ruling in China, they began printing paper money without restrictions on duration. The Venetian merchants were impressed by the fact that the Chinese paper money was guaranteed by the State. European explorers and merchants[edit] According to a travelogue of a visit to Prague in by Ibrahim ibn Yaqub , small pieces of cloth were used as a means of trade, with these cloths having a set exchange rate versus silver. In the beginning these were personally registered, but they soon became a written order to pay the amount to whoever had it in their possession. These notes are seen as a predecessor to regular banknotes by some but are mainly thought of as proto bills of exchange and cheques. In the 14th century, it was used in every part of Europe and in Italian city-state merchants colonies outside of Europe. For international payments, the more efficient and sophisticated bill of exchange "lettera di cambio" , that is, a promissory note based on a virtual currency account usually a coin no longer physically existing , was used more often. All physical currencies were physically related to this virtual currency; this instrument also served as credit. Birth of European banknotes[edit] The first paper money in Europe, issued by the Stockholms Banco in The goldsmith -bankers of London began to give out the receipts as payable to the bearer of the document rather than the original depositor. This meant that the note could be used as currency based on the security of the goldsmith, not the account holder of the goldsmith-banker. This pivotal shift changed the simple promissory note into an agency for the expansion of the monetary supply itself. As these receipts were increasingly used in the money circulation system, depositors began to ask for multiple receipts to be made out in smaller, fixed denominations for use as money. The receipts soon became a written order to pay the amount to whoever had possession of the note. These notes are credited as the first modern banknotes. Cheap foreign imports of copper had forced the Crown to steadily increase the size of the copper coinage to maintain its value relative to silver. The heavy weight of the new coins encouraged merchants to deposit it in exchange for receipts. These became banknotes when the manager of the Bank decoupled the rate of note issue from the bank currency reserves. Three years later, the bank went bankrupt, after rapidly increasing the artificial money supply through the large-scale printing of paper money. The Bank began the first permanent issue of banknotes a year later. The modern banknote rests on the assumption that money is determined by a social and legal consensus. By the late 17th century, this new conceptual outlook helped to stimulate the issue of banknotes. The economist Nicholas Barbon wrote that money "was an imaginary value made by a law for the convenience of exchange. Established in to raise money for the funding of the war against France , the bank began issuing notes in with the promise to pay the bearer the value of the note on demand. They were initially handwritten to a precise amount and issued on deposit or as a loan. In the United States there were early attempts at establishing a central bank in and , but it was only in that the federal government of the United States began to print banknotes. Central bank issuance of legal tender[edit] The Bank of England gained a monopoly over the issue of banknotes with the Bank Charter Act of Originally, the banknote was simply a promise to the bearer that they could redeem it for its value in specie, but in the second in a series of Bank Charter Acts established that banknotes would be considered as legal tender during peacetime. The Act gave the Bank of England an effective monopoly over the note issue from However, this is not always the case, and historically the paper currency of countries was often handled entirely by private banks. Thus, many different banks or institutions may have issued banknotes in a given country. Commercial banks in the United States had legally issued banknotes before there was a national currency; however, these became subject to government authorization from to In the last of these series, the issuing bank would stamp its name and promise to pay, along with the signatures of its president and cashier on a preprinted note. By this time, the notes were standardized in appearance and not too different from Federal Reserve Notes. Example of a banknote issued by a commercial bank: Banknotes can be overstamped with new denominations, typically when a country converts to a new currency at an even, fixed exchange rate in this case, Prior to the introduction of banknotes, precious or semi-precious metals minted into coins to certify their substance were widely used as a medium of exchange. The value that people attributed to coins was originally based upon the value of the metal unless they were token issues or had been debased. Banknotes were originally a claim for the coins held by the bank, but due to the ease with which they could be transferred and the confidence that people had in the capacity of the bank to settle the notes in coin if presented, they became a popular means of exchange in their own right. They now make up a very small proportion of the "money" that people think that they have as demand deposit bank accounts and electronic payments have negated the need to carry notes and coins. Banknotes have a natural advantage over coins in that they are lighter to carry but are also less durable. Banknotes issued by commercial banks had counterparty risk , meaning that the bank may not be able to make payment when the note was presented. Notes issued by central banks had a theoretical risk when they were backed by gold and silver. Both banknotes and coins are subject to inflation. The durability of coins means that even if metal coins melt in a fire or are submerged under the sea for hundreds of years they still have some value when they are recovered. Gold coins salvaged from shipwrecks retain almost all of their original appearance, but silver coins slowly corrode. Discounting to face value: Before national currencies and efficient clearing houses, banknotes were only redeemable at face value at the issuing bank. Even a branch bank could discount notes of other branches of the same bank. The discounts usually increased with distance from the issuing bank. The discount also depended on the perceived safety of the bank. When banks failed, the notes were usually partly redeemed out of reserves, but sometimes became worthless. Counterfeiting paper notes has always been a problem, especially since the introduction of color photocopiers and computer image scanners. Numerous banks and nations have incorporated many types of countermeasures in order to keep the money secure. However, extremely sophisticated counterfeit notes known as superdollars have been detected in recent years. Manufacturing or issue costs. Coins are produced by industrial manufacturing methods that process the precious or semi-precious metals, and require additions of alloy for hardness and wear resistance. By contrast, bank notes are printed paper or polymer , and typically have a higher cost of issue, especially in larger denominations, compared with coins of the same value. However, banks of issue do have to pay the cost of replacing banknotes in poor condition and paper notes wear out much faster than coins. Coins can be expensive to transport for high value transactions, but banknotes can be issued in large denominations that are lighter than the equivalent value in coins. Coins can be checked for authenticity by weighing and other forms of examination and testing. These costs can be significant, but good quality coin design and manufacturing can help reduce these costs. The different disadvantages between coins and banknotes imply that there may be an ongoing role for both forms of bearer money, each being used where its advantages outweigh its disadvantages. The cotton is sometimes mixed with linen , abaca , or other textile fibres. Generally, the paper used is different from ordinary paper: Unlike most printing and writing paper, banknote paper is infused with polyvinyl alcohol or gelatin, instead of water, to give it extra strength. Early Chinese banknotes were printed on paper made of mulberry bark. Mitsumata Edgeworthia chrysantha and other fibers are used in Japanese banknote paper [48] a kind of Washi. Paper money from different countries Most banknotes are made using the mould made process in which a watermark and thread is incorporated during the paper forming process. The thread is a simple looking security component found in most banknotes. It is however often rather complex in construction comprising fluorescent, magnetic, metallic and micro print elements. By combining it with watermarking technology the thread can be made to surface periodically on one side only. This is known as windowed thread and further increases the counterfeit resistance of the banknote paper. Other related methods include watermarking to reduce the number of corner folds by strengthening this part of the note, coatings to reduce the accumulation of dirt on the note, and plastic windows in the paper that make it very hard to copy. Counterfeiting and security measures[edit] When paper bank notes were first introduced in England in the s, they resulted in a dramatic rise in counterfeiting. This is mostly due to the fact that historians prioritize the theoretical understanding of how money worked rather than how it was produced. In the XVIII century, bank notes were produced mainly through copper-plate engraving and printing and they were single-sided. Notes making technologies remained basically the same during the XVIII century [51] The first banknotes were produced through the so-called intaglio printing , a technique that consisted of engraving a copper plate by hand and then covering it in ink to print the bank notes. Only with this technique it was possible, at that time, to force the paper into the lines of the engraving and to make suitable banknotes.

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