

Types of Money

Money is anything generally accepted in exchange for goods and services. Throughout history, money has taken many different forms. Most early money systems were based upon a good, or commodity, that held value. The U.S. used to use a commodity money system. At one point, the dollar used to be worth 24.75 grains of gold.



Commodity money is money that would have value even if it were not being used as money. It is often based on a valuable commodity, such as gold or silver. In 1871, countries began linking their currency to the Gold Standard. The United States stopped the conversion from dollars into gold almost 100 years later. What's really interesting about commodity money is that since the commodity itself has value, it can be used as other mediums of exchange. Some countries use both fiat money and commodity money, but fiat money is used in many countries throughout the world.



Most of the countries using paper money, such as the United States, is fiat money. In the U.S., the paper money is also a legal tender. This means that the government says it is legal for people to use it to pay for items.

Fiat money is a currency that a government declares is the legal form of money in the country. The country also secures the currency.

However, it has no real value other than the government's backing and the trust people place in it. Fiat money is widely accepted as a form of payment and there is a common agreement to use that currency. Most countries today use a fiat money system.

China was the first country known to use fiat money more than a thousand years ago.

A picture of China's first fiat is located at the right.

