
Money, Money, Money

Segment Length: 6:14 minutes

Lesson Description:

Why does money have value? How did that—“printed pieces of paper”—become money? How can government policies affect the value of the dollar? In this segment John Stossel gives us a brief history of money—and a look ahead at what money could become.

Concepts & Key Terms:

Gold Standard – a system in which currency is fixed to the price of gold and money supply is limited by gold reserves.

Cryptocurrency – digital currency secured by encryption whose supply is not controlled by a central authority.

Inflation – a decrease in the purchasing power of money experienced as rising prices, usually as a result of government excessively printing money.

Objectives:

Students will be able to:

- define gold standard, cryptocurrency, and inflation.
- discuss the purpose of money.
- explain the fundamental qualities of sound money
- assess the impact of the development of banking on improvements in living standards

Preview Activity:

Have students answer the following questions in their notebooks:

What is money? What makes it useful? What gives it value?

OR

What makes a dollar bill valuable and why it might lose its value in the event of societal collapse following a global zombie pandemic?

Use Think, Pair, Share to have students answer the preview question(s). After a few minutes, poll the students. Ask the students to discuss their answers.

Viewing Guide:

We recommend that teachers show the video segment twice: once to allow students to view the video and focus on the issues presented, and once to allow them time to complete the viewing guide. After they complete the viewing guide, allow students a few minutes to work in pairs sharing and verifying answers.

Answers to Viewing Guide

1. fixed value
2. account
3. Alexander Hamilton
4. hyperinflation
5. Great Depression
6. price changes
7. struggle

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Viewing Guide

Name _____

Date _____

Class _____

Teacher _____

Directions: As you watch the video, fill in the blanks with the correct words.

1. So, throughout history people needed a way to assign a _____
_____ to money.
2. The Knights Templar developed a system where they said, well, you can just deposit your money here with us and then, when you need some, you can withdraw it from your _____. This enabled the peasants to travel Europe without being a danger of being robbed.
3. Then, in the U.S., _____ fixed the dollar to gold. The dollar became to be seen as a rock solid currency where you could go anywhere in the world, and they would accept that dollar.
4. To print money to pay for the conflict, Europe and the U.S. went off gold. And after losing the war, Germany suffered the infamous Weimar _____.
5. President Herbert Hoover signed into law the Smoot-Hawley Tariff. Its sweeping taxes on thousands of foreign products triggered a global trade war. This set in motion events leading to the _____.
6. But so far, cryptocurrencies' _____ make them hard to use as currency.
7. All this is the _____ for trust. And money, ultimately, does depend on trust.

Now, take a few moments to reflect on the video and answer the question below:

What are some qualities of currency necessary for reliable money? How do paper currency (not backed by anything) and gold each supply these qualities? _____

Discussion and Analysis:

1. What did people do before money was developed? How did that affect economic development and trade?
2. Why is gold considered a better medium of exchange than crops or salt?
3. What makes money trustworthy? Why are we so sure each day that others will accept it for products or services we want?
4. What or whom are you trusting when you accept a dollar bill as payment?
5. What was a problem with gold? How did printed currency change that?
6. The video claims that excessively printing money changes its value, effectively stealing from consumers. How so? Do you agree or disagree? Why?
7. Why might it be good for money to have a fixed value?
8. The video notes “great material progress” while the dollar was fixed to gold (the gold standard). How might the gold standard be good for economic growth?
9. How did the Roman Emperor Nero debase the currency? Does that relate to printing paper currency (fiat money)?
10. Jack Weatherford says an accepted form of money creates mobility. How so? Why might a generally accepted form of currency be preferable to barter in creating economic mobility?
11. The Smoot-Hawley Tariffs enacted sweeping taxes on thousands of foreign products. How might that trigger a global trade war? How might that lead to a depression?
12. How do the price changes in cryptocurrencies such as bitcoin make them hard to use as currency?
13. What role does predictability play in making currency trustworthy?

Discuss These Lines from the Video:

1. What makes money trustworthy? It has to be reliable.... It has to be fixed in value.
2. The best mechanism for this would be some kind of commodity that’s permanent, easily transported, easily understood by anyone. And that medium was, of course, gold.
3. Money begins to create a kind of mobility in people’s lives that they never had before.
4. Rome’s decline was very closely associated with the decline of its money.
5. Then, in the US Alexander Hamilton fixed the dollar to gold. The dollar became to be seen as a rock solid currency where you could go anywhere in the world, and they would accept that dollar.
6. Bitcoin is both a currency and a payment system, so it’s like PayPal and U.S. dollars combined into one.

7. You go to a restaurant and you find that your meal is going to cost eight thousand marks, say, and you order it, you eat it, and by the time the bill comes, that eight thousand Marks has become sixteen thousand Marks.

Quotes for Discussion:

The classical or orthodox gold standard alone is a truly effective check on the power of the government to inflate the currency. Without such a check all other constitutional safeguards can be rendered vain. – Ludwig von Mises

Unfortunately, however, that kind of a real, honest-to-God gold standard has seldom, if ever, existed.... Over the past two thousand years, the use...of silver or gold as money has not prevented, for most of the period, governments from depreciating the currency, from engaging in inflation as a means of extracting the income of the people for governmental purposes. – Milton Friedman

In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. – Alan Greenspan

“Backed by gold” doesn’t have any meaning whatsoever. It’s still a trust system. What the “backing by gold” did was make it more probable that you could trust it, as long as there wasn’t a lot more gold discovered. And so, I think people don’t like paper money. They want real money. There’s no such thing. – Russ Roberts

Although the last vestiges of the gold standard disappeared in 1971, its appeal is still strong. Those who oppose giving discretionary powers to the central bank are attracted by the simplicity of its basic rule. Others view it as an effective anchor for the world price level. – Michael D. Bordo

The first panacea for a mismanaged nation is inflation of the currency; the second is war. Both bring a temporary prosperity; both bring a permanent ruin. But both are the refuge of political and economic opportunists. – Ernest Hemingway

He who tampers with the currency robs labor of its bread. – Daniel Webster

If you want an alternative currency, check out gold. It has stood the test of thousands of years as a store of value and medium of exchange. – Paul Singer

Activities:

1. Have students complete the accompanying worksheet for homework.
2. Show the class one or more of the following videos:

Investopedia Video: What Is Inflation? (1:09)
<https://www.youtube.com/watch?v=Vi3Q1ypNw3M>

A World of Money (15:56)
https://www.izzit.org/products/detail.php?video=world_of_money

Too Much Money (16:28)

https://www.izzit.org/products/detail.php?video=too_much_money

3. Produce a “man-on-the-street” video in which you ask people to explain a) inflation, and b) how government printing of currency affects the economy. Then, follow up by asking whether they approve of the government raising revenue by printing money and causing inflation.
4. Research and report on the origin of the word “salary.”
5. Research and present in a slideshow the causes and results of hyperinflation in Venezuela, Zimbabwe, or the Weimar Republic.
6. Read and write a summary of one of the following articles:
 - A) “America Needs The Gold Standard More Than Ever” by Keith Weiner
<https://www.forbes.com/sites/keithweiner/2014/06/24/america-needs-the-gold-standard-more-than-ever/#5f3cb46b73f4>
 - B) “Everything You Need to Know About the Gold Standard” by *The Week* Staff
<https://theweek.com/articles/471745/everything-need-know-about-gold-standard>
 - C) “A Brief (And Messy) History of Modern Gold Standards” by Marcia Christoff-Karupovna
<https://mises.org/wire/brief-and-messy-history-modern-gold-standards>
 - D) “Hazlitt on Gold” by Jude Blanchette
<https://fee.org/articles/hazlitt-on-gold/>
 - E) “Gold and Money” by Warren C. Gibson
<https://fee.org/articles/gold-and-money/>
 - F) “Good Money, Bad Money—And How Bitcoin Fits In” by Thorsten Polleit
<https://fee.org/articles/good-money-bad-money-and-how-bitcoin-fits-in/>
7. Research the characteristics of money. What are they? How do those characteristics relate to gold-backed currency, fiat currency (not backed by gold), and cryptocurrencies?
8. Write a persuasive essay in which you examine one argument for and one argument against the gold standard and offer rebuttal to the side you find less convincing.
9. Conduct a classroom debate on the topic of whether the United States ought to return to gold-backed currency.
10. Watch “Econ Duel: Fiat Money vs. the Gold Standard” (9:58) and summarize the main arguments presented on each side.
<https://www.youtube.com/watch?v=FbDZ0ObRXfE>
11. Research and write a report on the history of the gold standard in America.
12. Watch “Jack and the Bean Stalk and the Money Supply” (2:56), write a summary of the video, then answer the questions below:
 - a) Why does the merchant raise his prices?

- b) How does Jack effectively tax Old Mother Hubbard?
- c) Why do governments want to have a monopoly on the medium of exchange?

<https://www.youtube.com/watch?v=OxGBD-XcYGw>

13. Research and create a slideshow presentation to explain the effects of increasing the money supply and how gold-backed currency (as compared to fiat currency) affects the ability of policy makers to adjust the money supply.
14. Create a video comparing cryptocurrency to gold-backed currency. Explain how each addresses the criticism of fiat currency and what advantages or disadvantages each might have in comparison to the other.
15. Read and summarize the “Great Myths of the Great Depression” by Lawrence Reed. (This booklet is available to download.)

<https://fee.org/resources/great-myths-of-the-great-depression/>

16. In the video, we learned that the U.S. dollar has lost value—purchasing power—over time. Research this and draw an annotated line graph that explains the reasons for the drops in value.

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Flow Chart

Name _____

Date _____

Class _____

Teacher _____

Directions: Use the flow chart below to layout the arguments for and against gold-backed currency and to challenge and defend those arguments.

