The earliest forms of money arose spontaneously in barter economies when experienced traders identified certain commodities that were so widely desired for actual use in the society that they could reasonably count on their acceptability as payment in almost any trade.

Successful mediums of exchange throughout history include not only useful metals such as gold, silver, copper, bronze and iron, but also useful items such as:

- tobacco
- cattle
- furs
- animal hides
- grain
- gourds
- salt
- sea shells
- feathers
- titles to particular coconut trees

Monetary demand for such commodities was further enhanced if they also had other physical properties making them especially convenient to use for trade, such as:

- durability
- portability
- ease of storage
- uniform quality
- & divisibility

Ergo, the demand for these goods was initially related to their intrinsic value, but then increased as they became convenient and accepted mediums of exchange.

Good Money: Currency whose face value equals the value of the commodity used to make it.

Bad Money: Currency whose face value exceeds the value of the commodity used to make it.

Gresham's Law: The belief that "bad" money would eventually drive "good" money out of the market.

Flat Money: Money (e.g., bank notes and coins) that is legal tender by government declaration and is not backed by gold or silver. Its intrinsic value is divorced from its monetary face value, which rests on public confidence in the issuing authority—usually the central bank.

In modern industrialized economies, money is usually based on abstract claims on government-regulated banks ("fiat money").

These "claims of value" usually take the form of token coins, paper currency, central bank notes, or even data representing one's bank account balance.

Government sponsored currencies originated as "IOU's" in which the government promised to redeem these tokens on demand with "real money" - i.e., fixed quantities of gold or silver.
By the 20th century government promises of redemption (currency for gold) have largely been withdrawn.

Currency now has little or no intrinsic value.

Nevertheless, in relatively "stable" countries (ie. Canada, United States, Great Britain, Switzerland, Japan, Germany, etc.) fiat currencies remain acceptable as a means of payment because people have faith that the currency will be widely accepted in the marketplace.

Canada's growth slows with a low currency rate.

Productivity growth:

and overseas will lose out.

Travelers going abroad:

Losers:

Canadians selling their commodities to markets with higher

Winners:

Historically, a falling dollar has been good for Canadian exporters. Companies selling their commodities to foreign markets are more competitive on a global scale because their products are cheaper.

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Some Exchange Value Analyses

Privately, a falling dollar has been good for Canadian exporters. Companies selling their commodities to foreign markets are more competitive on a global scale because their products are cheaper.

But financial experts say that history doesn't apply in today's world order. Analysts don't expect Canadian exporters to do as well because American spending has decreased in light of the Sept. 11 terrorist attacks. There is a reluctance to resume regular spending habits amid the threat of further attacks, SARS, etc. Some analysts even predict Americans will spend more at home as part of an improved patriotic spirit since Sept. 11.
What can be done about a falling dollar?

Increase Interest Rates: In times of economic trouble, the Bank of Canada often increases interest rates in the hopes that Canadians will increase spending and boost the economy. However, high-interest rates make Canadian stocks and bonds more attractive; this increases the demand for, and the value of, the Canadian dollar.

Open Market Operations: To support the dollar, the Bank of Canada does have the option of buying Canadian dollars and selling U.S. dollars on foreign exchange markets. However, past Bank of Canada governor David Dodge is on record as saying the central bank isn’t fond of intervening in currency markets to tweak the dollar on a day-to-day basis. In fact, it hasn’t done that since 1998—during the Russian financial crisis. “The only time we would go in is if there were a major international crisis where we would have to go in along with other countries.”

Often when the dollar falls, there is increased talk of a common currency with the United States. Supporters of a single currency range from conservative economists to Parti Québécois finance ministers. Arguments for this type of currency include the facilitation of trade and the benefits associated with being part of a strong North American currency. Opponents of a single currency believe Canada would be swallowed up politically and economically by the more-dominant American market.

The Canadian tourism industry is in a similar state. A weak dollar attacks. Shortly after Sept. 11, travel and hotel agents saw bookings for leisure and business trips deteriorate and their job security threatened.

Canadian importers also suffer when there’s a low currency rate. Canada’s manufacturing sector buys much of its equipment and production materials south of the border and tends to lose out when the dollar falls. On the other hand, Canadian buyers will tend to turn inward and avoid spending on foreign products, looking to spend domestically instead.

The Bank Act of 1871 permitted the banks to issue $5 notes and multiples thereof. The government had a free rein as far as coinage was concerned, since the banks did not issue their own coins. In 1908, the Royal Mint in London established a branch in Ottawa. From then on, Canadian coins were produced there, including the 1908 5-cent coin. In 1931 the Canadian branch of The Royal Mint, became The Royal Canadian Mint.

In 1912, the Mint produced its first gold coins. The $5 gold coins did not circulate widely and were used mostly by the banks. They had to back their notes with gold reserves, and found it convenient to keep gold coins in their vaults instead of gold bars. In 1914, the rising price of gold just prior to World War I forced Ottawa to remove from the Bank Act the stipulation that all bank notes had to be backed by gold. From then on, Canada no longer used gold to guarantee its bank notes, except for a brief period from 1918 to 1921.

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