

Principles of Economics – Lecture 10 (Money) • Study Notes

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Big Picture

- **Money = the solution to the “coincidence of wants” problem.**
 - Direct exchange (barter) and small-scale debt work only in small communities; they break down in larger societies.
 - Indirect exchange introduces a *medium of exchange* — a good acquired not for consumption but for its tradeability.
 - Over time, the most *saleable* goods emerge as money.
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Core Claims

1. **The Coincidence of Wants Problem**
2. Barter requires a double coincidence: I want what you have, and you want what I have.
3. Works in tiny societies; collapses in larger markets:contentReference[oaicite:0]{index=0}.
4. Money solves this by allowing indirect exchange.
5. **Saleability as Key Criterion**
6. **Definition:** ease of selling a good at prevailing prices:contentReference[oaicite:1]{index=1}.
7. Dimensions of saleability:
 - **Across goods** → universally acceptable.
 - **Across space** → transportable.
 - **Across scale** → divisible/aggregatable.
 - **Across time** → durable & resistant to

debasement:contentReference[oaicite:2]{index=2}.

8. Goods with higher saleability become money.
9. **Hard vs. Easy Money**
10. **Hard money**: stockpile large relative to annual flow → resistant to inflation.
11. **Easy money**: stockpile small, flow large → easy to
debase:contentReference[oaicite:3]{index=3}.
12. Gold's high stock-to-flow ratio made it the dominant money; copper/silver fell to industrial use.
13. Bitcoin replicates and strengthens these properties digitally.
14. **Money Is Not a Collective Hallucination**
15. Contrary to Keynesian/Marxist claims, money is not just a story or
decree:contentReference[oaicite:4]{index=4}.
16. Not everything can function as money (bananas, copper, etc.).
17. Money emerges spontaneously as the hardest-to-produce, most saleable good.
18. **Functions of Money**
19. Expands scope for **division of labor** → foundation of civilization.
20. Enables **economic calculation** → prices in one unit instead of millions of barter ratios.
21. Allows **saving & time preference reduction** → incentivizes future provision,
lowers uncertainty:contentReference[oaicite:5]{index=5}.
22. **How Much Money Should There Be?**
23. Austrian view: *any* quantity of money is sufficient:contentReference[oaicite:6]{index=6}.
24. People want purchasing power, not units.
25. Money's utility comes from exchange, not consumption or production.
26. More units ≠ more wealth — higher purchasing power = more wealth.

Key Concepts & Mental Models

- **Medium of exchange** = bought only to be sold later.
- **Money** = the *generalized* medium of exchange.
- **Saleability** = liquidity, fungibility, durability, portability.
- **Stock-to-Flow Ratio** = hardness measure; higher = better money.
- **Regression Theorem (Mises)** = money arises from prior market demand for a

good:contentReference[oaicite:7]{index=7}.

Historical & Modern Notes

- Gold & silver dominated for millennia; gold won out as hardest money.
 - Silver lost monetary role as banking technology replaced it.
 - Fiat money did not emerge by decree but by breaking redemption promises (fraud).
 - Bitcoin = first non-state money to emerge globally before any government recognition.
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Quotable Ideas

- “The services money renders are conditioned by the height of its purchasing power.” — Mises:contentReference[oaicite:8]{index=8}
 - “Money is not an invention of the state; it emerges naturally from human action.” — Menger:contentReference[oaicite:9]{index=9}
 - “Money is not a hallucination. Some things work as money, others do not.” — Ammous:contentReference[oaicite:10]{index=10}
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Study Prompts

- What problem does money solve?
- Define saleability and its four dimensions.
- Explain the difference between hard and easy money.
- Why is money not a “collective hallucination”?
- How does money enable economic calculation?

- Why is “any quantity of money sufficient” in the Austrian view?
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TL;DR

Money emerges to solve the coincidence of wants problem in large societies. The most saleable goods — durable, divisible, portable, and resistant to debasement — outcompete others to become money. Hard money (gold, Bitcoin) resists supply shocks and holds value; easy money (copper, fiat) enriches producers at holders’ expense. Money is not a collective belief but an economic reality grounded in scarcity and salability. Its functions — enabling trade, calculation, and saving — make it the foundation of civilization. And in Austrian economics, *any supply of money suffices*; what matters is its purchasing power, not the number of units.
