Topic: internal value of a currency

Subject: economics

school: Gewerbliche Schule Schwäbisch Hall Germany

Basically, the internal value of a currency is its purchasing power domestically. More often than not, the value of money is usually determined by many commodities a single unit of the money can purchase. The purchasing power of money over goods and services is referred to as the value of money. The value of money is categorized into the internal and external value of money. The internal value of money refers to the purchasing power of money over domestic goods and services or otherwise the buying capacity of money. The prices of goods and services are closely related to the value of money; the greater the quantity of goods and services bought by a unit of money, the greater the value of money. Conversely, the lesser the quantity of goods and services bought by a unit of money, the lesser the value of money.

- To undertsand the basic principle it is important to get to know certain technical terms.
- Students are supposed to use the internet to research the main principles and key words. They can use the solution sheet to check their results.
- In the end they are supposed to research prices for a certain product (can be chosen randomly) and see how the price changed over time. They are supposed to calculate the rate in which the price has changed.

Spending capacity

1. What is meant by purchasing power?

2. Compare the data and explain how purchasing power developed between 1950 and 1985.

3. What is the relationship between purchasing power, monetary val-

Example of a cash value	
	For goods that cost 100 Deutsche Mark in 1950, you had to
1950	100,-
1955	110,-
1960	121,-
1965	138,-
1970	155,-
1975	208,-
1980	251,-
1985	303,-

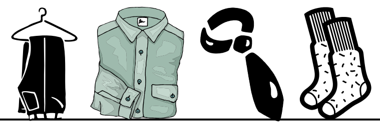
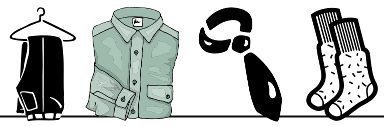
Purchasing power changes

1. How are changes in the price level measured?

2. What is meant by a "shopping cart" in this context?

Development of monetary value

1. Over the years, Karl Knausrig has observed the changes in the value of money and has made the following discovery: for 100 DM he received ... Explain his discoveries and name these forms of monetary value development.

Year 1		**Year 9**	
Year 3		**Year 11**	
Year 5		**Year 13**	
Year 7		**Year 15**	

2. Changes in the value of money arise when the relationship between the amount of money and the amount of goods in a state changes.
Explain these relationships by completing the models below (by weighting the amount of money and goods). Explain what happens with price and monetary value.

Money value ⟷ **goods**	**Money value** ⟷ **goods**	**Money value** ⟷ **goods**
leads to		leads to

3. Note possible causes of inflation and deflation.

4. Record the effects of inflation and deflation on:
- Consumer
- savers

INFLATION

subtle | **soaring** | **open** | **hidden**

Spending capacity—solution

1. What is meant by purchasing power?

Purchasing power indicates how many goods you can buy for a given amount of money.

2. Compare the data and explain how purchasing power developed between 1950 and 1985.

Purchasing power has declined sharply, as it cost 303 DM in 1985 for a commodity that cost 100 DM in 1950.

Example of a cash value	
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3. What is the relationship between purchasing power, monetary value and the general price trend?

climb

monetary value decreases

PRICES ---- PURCHASING- POWER

sinks

climb

monetary value is increasing

PRICES ---- PURCHASING POWER

fall

Purchasing power changes

1. How are changes in the price level measured?

- *They are measured by the price index for lifestyle.*

2. What is meant by a "shopping cart" in this context?

- contains all goods and services that all private households buy
- Goods are valued at federal average prices
- Price Index measures the percentage change in these prices (relative to a base year)

Development of monetary value

1. Karl Knausrig has over the years observed the changes in monetary value and thereby made

Jahr 1		**Jahr 9**	
Jahr 3		**Jahr 11**	
Jahr 5		**Jahr 13**	
Jahr 7		**Jahr 15**	

the following discovery. For 100 DM he received ...

Explanation of his discoveries and how to call these forms of monetary value development.

From year 1 to 7 the monetary value decreases more and more, because he gets less and

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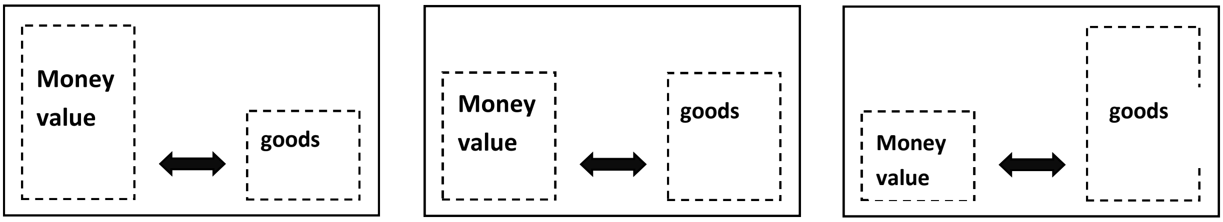

prices are increasing
Monetary value decreases

Prices are stable
Monetary value is stable

Prices are falling
Monetary value rises

führt zu

führt zu

Inflation

Deflation