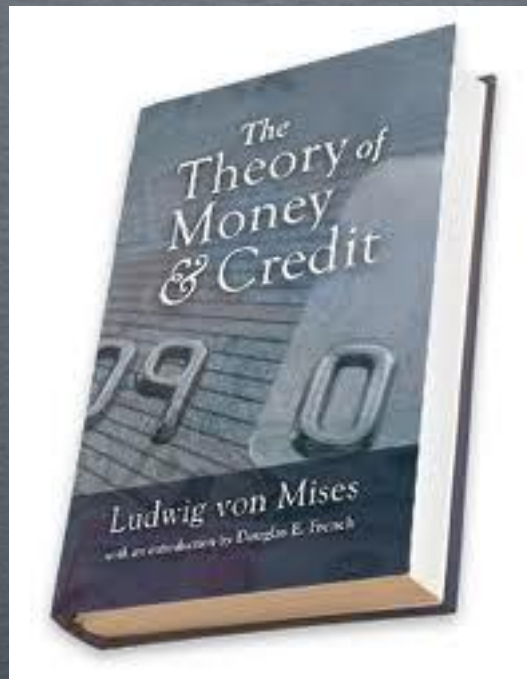


# Mises on Money & Banking



February 1, 2012

Lecture 1: The Function(s) of Money and  
Measurement of Value

# Function(s) of Money, Measuring Value

I. Course Description

II. Origin of Money

A. Not “invented”

B. Menger’s theory

III. Function vs. Functions of  
Money

IV. Objective Theory of Value

V. Modern Subjective Theory

A. No Equality of Value

B. Objective Prices,  
Subjective Valuations

C. Ordinal vs. Cardinal  
Ranking

VI. Does Money “Measure”  
Prices?



# I. Course Description

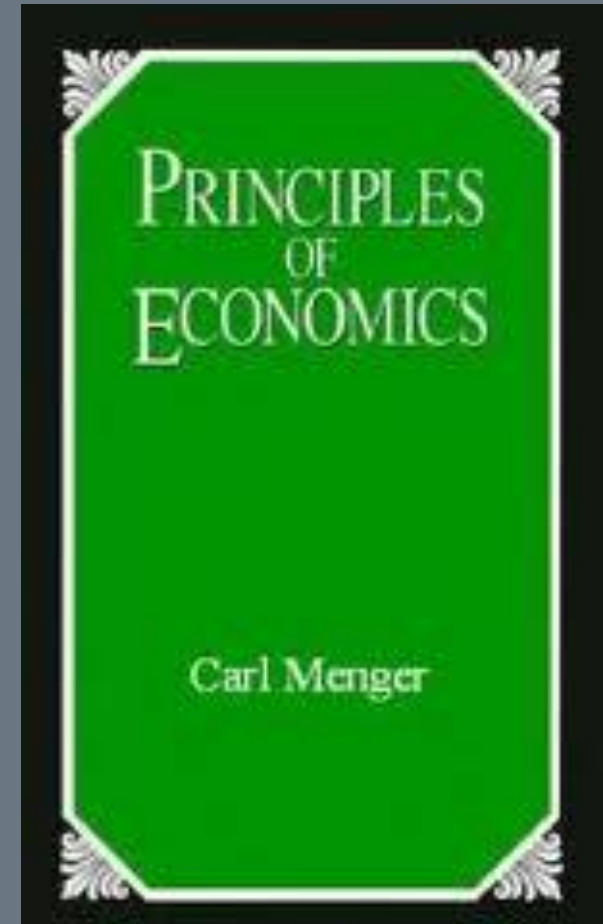




## II. The Origin of Money



A. Money Not “Invented”



# B. Menger's Theory of Origin of Money





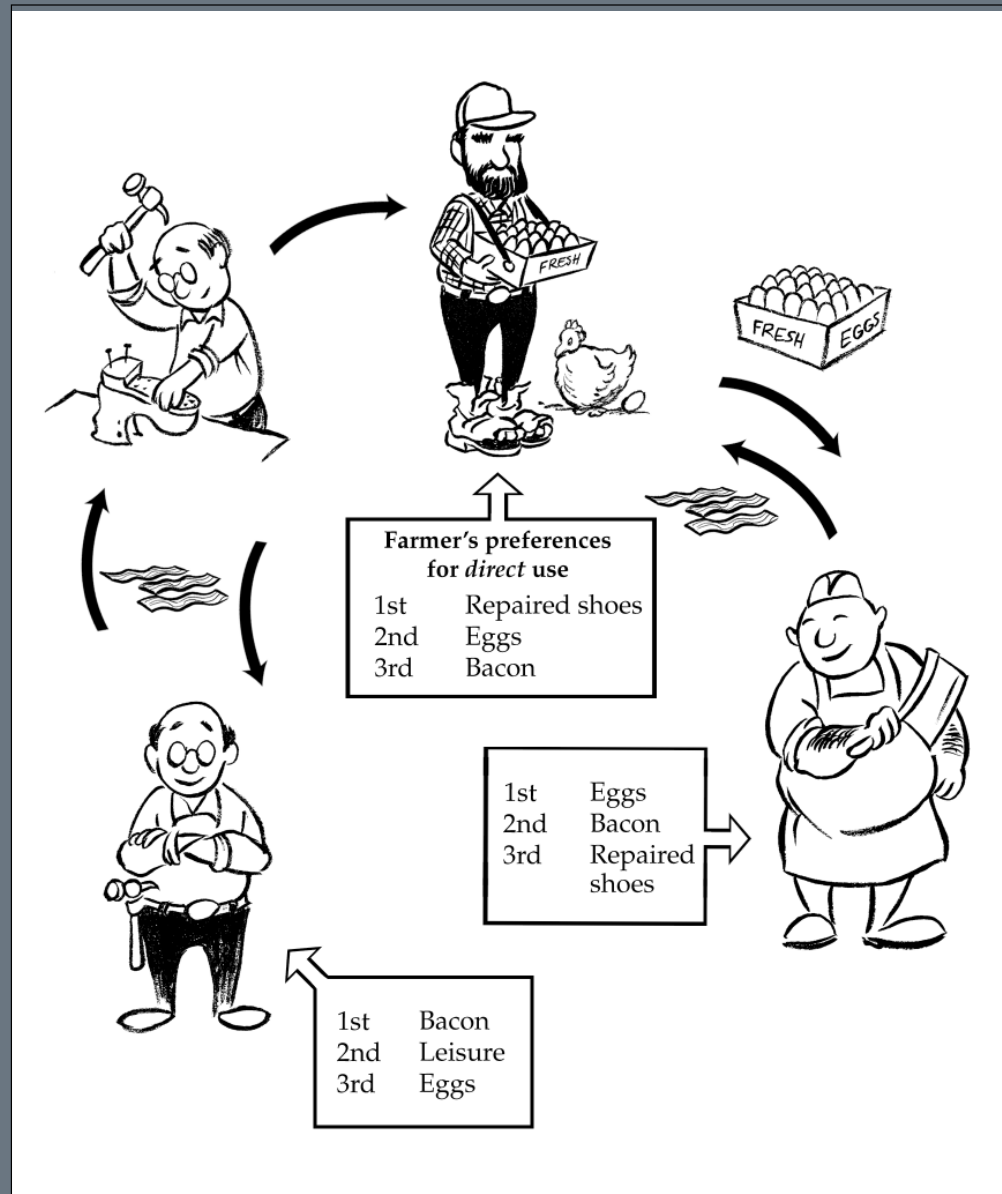
# 1. Limitations of Direct Exchange



## 2. Liquidity or “Saleability”



(Taken from  
Murphy's  
*Lessons  
for the  
Young  
Economist*,  
pdf  
available  
online.)



### 3. Medium of Exchange

Money is a *medium of exchange* that is accepted (almost) universally within a certain community.

## 4. Definition

- Divisible
- Durable
- Convenient market value by weight
- Homogeneous, identifiable units
- Easy to transport

## 5. Qualities (*not* Definition!) of a Good Medium of Exchange



Mises argues that *the* function of money is to serve as a medium of exchange. This subsumes other typical functions touted by other economists, such as:

- Store of value
- Standard of deferred payments
- Unit of account

## III. The Function vs. Functions of Money



Adam  
Smith

David  
Ricardo



Karl Marx



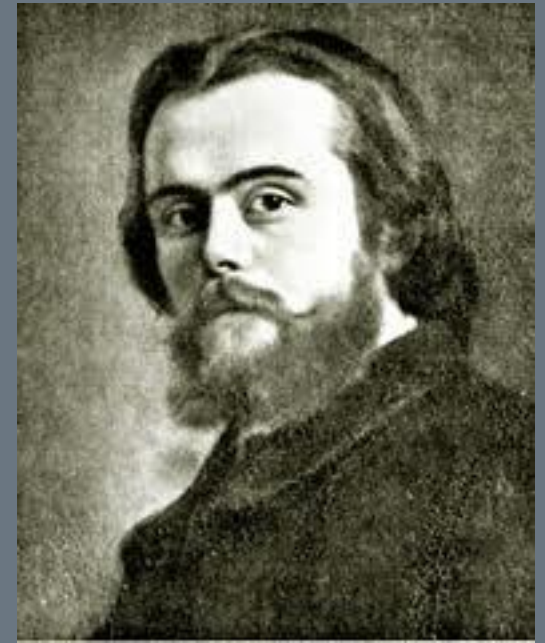
## IV. Objective Theory of Value (e.g. Labor Theory)



Carl  
Menger



William  
Stanley  
Jevons



Leon  
Walras

# V. Modern Subjective Theory of Value





**A. *No* Equality of Value**

Mises' e.g. (top of p. 40):

Suppose Adam has 3 pears, while Bob has 2 apples. Adam would prefer to have 2 apples to his own 3 pears, while Bob would prefer to have 3 pears to his own 2 apples. Thus they trade (just like the girls at lunch on the previous slide). There is no “equality” of valuation; each guy values the other guy’s stuff more than his own.

Even so, now the market price of 1 apple is *precisely* 1.5 pears (or price of a pear is two-thirds of an apple).

**B. Subjective Valuations →  
Objective Prices**

Examples of cardinal numbers: 1, 325.33,  $\pi$

Examples of ordinal numbers: 1<sup>st</sup>, 4<sup>th</sup>, 26<sup>th</sup>

Subjective value theorist uses concept of “preferences” to explain *acts of exchange*. Thus valuation and preferences are always ordinal rankings, not cardinal measurements of “utility” intensity.

Analogy: We can rank our friends. It makes sense to say, “Sally is a better friend than John.” It doesn’t make sense to say, “I attribute 13% more friendship units to Sally than to John.”

## C. Ordinal vs. Cardinal



No, not really.

→ Mises says prices *consist in* money; money doesn't really “measure” prices.



VI. Does Money  
“Measure” Prices?