

Economics

Year 1

SECTION

9

MONEY AND FINANCIAL INSTITUTIONS



GOVERNMENT ECONOMIC POLICY AND TRADE

Concept of Money, Financial Institutions and Public Finance

INTRODUCTION

Have you ever heard the statement ‘Money makes the world go round’? This statement means that money is especially important in everyday activities. But have you ever stopped to think about what money is? From the cash in your wallet to digital payments on your phone, money is a fundamental part of our daily lives. What exactly is money, where does it come from and how do banks, and other financial institutions handle money?

In this section you will learn about money and explore its meaning, functions and types. You will discover the different forms of money, from physical currencies to digital currencies. You will also learn how financial institutions help to manage money, including depository and non-depository institutions.

This section will help you to improve your understanding about how the Ghanaian economy works and how to make informed decisions about your financial future. So, get started on this exciting journey into the world of money!

By the end of this section, you should be able to

- Explain the concept of money in an economy.
- Describe the types of financial institutions.

KEY IDEAS

1. Money is a legally accepted medium of exchange that enables transactions to be done within an economy.
2. Money can function as a medium of exchange, a unit of account, a store of value, and as a standard for deferred payment.
3. Financial institutions are organisations that ease the flow of funds within an economy.
4. The financial institutions can be classified into Depository and Non-depository financial institutions.

THE CONCEPT OF MONEY

Have you heard how people exchanged goods and services in the olden days? When someone has a goat, the person might exchange it for yam. The situation where a person exchanges goods and services for other goods and services without money is known as a **barter system**. People had to do a lot of talking to decide what was a fair exchange.

The exchange of goods for other goods was a problem in the barter system since it was often difficult to work out if the exchange was fair. Was ten yam worth a goat? Also, the person with the goat had to look for someone who had yam and also needed a goat. In barter systems this problem was partly solved by the use of items with a notional value like cowrie shells, elephant tusks, salt, cattle, and grain. The value of cows compared to shells was known.

Therefore, the concept of money can be defined as anything that is accepted in exchange for goods and services.

In this modern world, most countries use currencies as money in exchange for goods and services. In Ghana, the currency we use is in the form of banknotes, coins, credit and debit cards, and cheques. Barter still occurs in rural communities in Ghana where people do not earn wages or have little cash. One person might exchange vegetables they have grown for other goods.



Figure 9.1 Some Ghanaian Currency – Notes and Coins

Four Key Functions of Money

The concept of fair exchange led to the development of money as you now know it, notes and coins. Can you use chocolate to buy things from your local shop or credit for your phone?

The introduction of money as **a medium of exchange** solved many problems in the barter system. Money now serves as the only means of payment for goods and services. Everyone must use money in exchange for goods and services in the modern economy.

Consider this example: Adam paid Gh¢50 in exchange for one notebook.

Thanks to money everyone pays the same price for a notebook and the shop owner can also keep records of the items sold. The price of a notebook acts as **a measure of value**. And the bookshop owner keeping records of books sold acts as **a unit of account**. This has solved one problem of the barter system, setting out the exact values of goods and services.

Would you like to store or keep your savings as bars of chocolate or money?

Money can be kept safely to be used later. Unlike the barter system where tomatoes and yams get spoilt easily over time, money acts as **a store of value**. This has solved another problem of barter system where perishable goods like tomatoes cannot be stored for a long time. For example, Madam Esther sold her used car for Gh¢15,000 and kept the money in her bank account. She can keep the money in the bank without it getting spoilt.

Would you like to lend money to a friend who promised to pay later?

Money allows future payment. Therefore, money acts as **a standard of deferred payment**. That is, you can borrow money or buy items and pay later. For example, Abanga can buy a school bag costing Gh¢ 100 now but can decide to pay for it a week or month later.

In the real world the value of money does not stay the same over time, so in a way it does spoil. This is because the price of goods is always rising, something economists call inflation. Because of inflation your Gh¢100 will buy fewer goods and services over time. Watch this video clip to find out more about inflation:

[Introduction To Inflation | Grade 12 Economics Video Essay | Exam Revision Notes | NSC IEB \(youtube.com\)](#)

In summary, money has four key functions, it is **a measure of value, a unit of account, a store of payment and a standard deferred payment**.

TYPES OF MONEY

Currency: It refers to paper money and coins circulating in an economy. People can see and feel currency. Examples of currencies include Ghana cedis (Gh¢), and US dollar (\$).

Can you name any other currencies from different countries?

- 1. Coins:** These are small, round pieces of metal. They come in different values, like Gh¢2, Gh¢1, 50 pesewas.
- 2. Banknotes:** These are paper money. They also come in different values, like Gh¢1, Gh¢2, Gh¢5, Gh¢50, Gh¢200. They usually have pictures of important people or landmarks.

Digital Money: It refers to any form of money that exists in electronic form. You cannot physically touch this money, but you can see it as a store of value. Applications help you to spend this money like Mobile money, PayPal, and Online Banking.

Cryptocurrency: Cryptocurrencies are virtual money that uses cryptography for security. An example is Bitcoin. Paper and coins are not issued.

Central Bank Money: This is the money reserves held by commercial banks at a central bank. It includes both physical currency in vaults and electronic reserves. The central Bank of Ghana handles printing and issuing paper money and coins. This bank keeps the reserves of Bank of Ghana. GCB Bank and Agricultural Development Bank hold their money with the Central Bank of Ghana. Visit this link to find out more about the Central Bank of Ghana: About the Bank – [Bank of Ghana \(bog.gov.gh\)](http://bog.gov.gh)

Examples of how money is used in the economy:



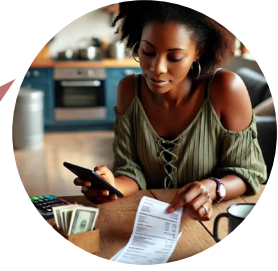
Sarah goes to Melcom and buys groceries worth GH¢100, using cash. The money acts as a medium of exchange, allowing her to pay for the goods she buys.

Michael opens a savings account at a bank and deposits GH¢ 5,000. The money serves as a store of value, and he earns interest on his savings over time.



A small business owner, David, borrows GH¢50,000 from a bank to expand his business. The bank provides the money as a loan and David repays it over time with interest. This is an example of deferred payment.

Jane pays her monthly utility bills, including electricity and water bills, totalling GH¢ 400. The money is used to settle her financial obligations to utility companies. This is an example of deferred payment.



The Ghanaian government gives funds to build a new hospital facility, with a budget of GH¢20 million. The money is used for the construction and operation of the healthcare facility.

Kwame uses MTN mobile money to pay for his Uber service, transferring GH¢50 to the driver through a mobile payment app.



Adwoa purchases goods online using Bitcoin, a digital cryptocurrency, as a form of payment.

Activity 9.1

Follow these YouTube links below to watch a video on the barter system and answer the questions that follow.

The Most Famous BARTER TRADE MARKET Exist in This part of Africa | Lome Togo ([youtube.com](https://www.youtube.com))

Nigeria Trade: Community uses barter system to pay for food ([youtube.com](https://www.youtube.com))

1. Describe to a friend how the barter system works in this market.
2. What problem did people face during the barter trade?
3. Write down two examples of items traded that you saw in the videos.
4. Which do you think is best, the barter system or using money to exchange for goods? Give your reasons for choosing one over the other.
5. Compare your answers with your friends.

Activity 9.2

Over one week complete the project detailed below.

1. **Project Title:** Tracking and Analysing Personal Financial Transactions
2. **Objective:** To help you understand the role money plays in your everyday life as a Senior High School learner, and your spending habits by recording and analysing your interactions with money, both cash and digital, over the course of one week.
3. **Project Outline**

- a. **Day 1:** Introduction and Setup

Introduction to the Project: Explain the importance of tracking financial transactions and how it can help in budgeting and financial planning.

Setup: Create a log (either in a notebook or digitally) to record every money transaction you make, noting the date, amount, type of transaction (cash or digital), and purpose.

Materials Needed: Notebook or digital device for recording transactions, Spreadsheet software (e.g., Microsoft Excel, Google Sheets), Graphing tools (can be part of the spreadsheet software)

- b. **Day 2-6:** Recording Transactions

Daily Logging: Record all your transactions each day. Be as detailed as possible.

Example Entry:

Date: October 2, 2024

Amount: GH¢5.00

Type: Cash

Purpose: Lunch at school canteen

- c. **Day 7:** Data Analysis and Presentation

Data Entry: Transfer your recorded data into a spreadsheet, save it using the project title.

Categorisation: Categorise the transactions (e.g., food, transportation, entertainment).

Graphing: Create graphs and charts to visualise the data. Suggested charts include:

Pie Chart: Showing the proportion of spending in different categories.

Bar Graph: Comparing cash vs. digital transactions.

Line Graph: Showing daily spending over the week.

4. Presentation:

- a. Summary Report:** Writes a brief report summarising your findings. The report should reflect your spending habits and suggest ways you could manage your money better.
- b. Class Presentation:** Present your findings to the class, using your graphs and charts to illustrate your points.

Activity 9.3

Prepare a report which details how a trader in your community uses money. Think critically about the functions of money in modern Ghana and relate it to the trader's business. Take the following into consideration when writing the report:

- 1.** The types of money they use.
- 2.** How does the type of money used help the trader in their business?
- 3.** Has the trader any preference to the type of money they use – currency, digital money? Is there a reason for their preference?
- 4.** Write up your report and ask a friend to read it. Ask them to share their thoughts on your report and compare it with their experiences buying goods from local traders.

THE MEANING OF FINANCIAL INSTITUTION

Financial institutions help move money within the financial system and offer various services to people, businesses, and governments. They play a key role in the economy by connecting those who have extra money (savers and investors) with those who need money (borrowers). A financial institution could be a bank where you keep your savings, a credit union where you can get loans or an insurance institution that helps protect you from unexpected problems. These places help people save, borrow and invest their money.

Types of Financial Institutions

The types of financial institutions are depository and non-depository institutions.

Depository institutions: These are institutions whose main source of funds is cash **deposits** from customers. Examples:

- 1. Banks:** Commercial banks, savings banks and credit unions accept deposits from customers and provide loans and other financial services. You can pay your school fees and bills through the bank. Examples of banks include GCB Bank Limited and Agricultural Development Bank.
- 2. Thrift institutions:** are financial institutions that mainly help people save money for buying homes and also give small loans to customers. Examples are First Allied Savings and Loans, Bayport savings and loans, Ghana home loans, and Opportunity International savings and loans.

DEPOSITORY INSTITUTIONS



Figure 9.2: Some depository financial institutions in Ghana

Non-depository institutions: They are institutions that help people with money but do not accept deposits from customers like the bank does. They offer services like giving loans, providing insurance and helping investments. Examples are insurance companies, and investment companies.

1. **Insurance companies:** are businesses that help to protect people from losses, damages or accidents. You pay them money regularly (a premium) and if something bad happens, like a car accident or a house fire or theft, they compensate your loss with a payment of money. This helps you cover the cost of replacing goods. Examples are SIC Insurance, and Enterprise Insurance.
2. **Investment companies:** are businesses that help people and other businesses to grow their money. They take the money you give them and use it to buy things like stocks or bonds. They pay you a sum of money taken from their investment earnings. They provide advice on individual goals and risk tolerance. Examples are Data Bank, Stanbic Investment Management Services, and SIC Financial Services.
3. **Brokerage firms:** are financial institutions that help people buy and sell stocks, bonds and other financial products. Examples are the Ghana Stock Exchange Market, KEK Insurance Broker, FirstbanC Brokerage Services LTD, SDS Group.
4. Central banks are special financial institutions that manage a country's money and financial systems. They print and distribute the country's currency like the Ghana cedi. They make sure that prices of goods and services do not rise too quickly by managing interest rates and the amount of money in the economy. They also control all the banks in the country. The Bank of Ghana (BoG) is the central bank in Ghana. Learner, search for the date on which the Bank of Ghana was set up.
5. **Pension funds:** are special financial institutions that help people save money for their retirement. Examples are Social Security and National Insurance Trust (SSNIT), People's Pension Trust, and Enterprise Trustees.
6. **Microfinance institutions:** are financial organisations that help people, especially those with low incomes by providing them with small loans to start or grow their businesses. They train and advise people to manage their businesses better. Examples are Opportunity International Savings and Loans, and Sinapi Aba Savings and Loans.

Using the internet, search for more examples of the various financial institutions.

NON-DEPOSITORY INSTITUTIONS



Figure 9.3: Some non-depository financial institutions in Ghana (Insurance Companies and Microfinance)

Activity 9.4

Research Project Outline: Investigating Services Offered by Financial Institutions

1. **Objective:** To explore and document the range of services offered by various financial institutions using internet-based research.
2. **Planning:** Name the types of financial institutions to be studied (e.g., banks, credit unions, investment firms, insurance companies).
3. **Research:** Use the internet to gather information on the services offered by selected financial institutions. Focus on their official websites and reputable financial news sources. Example services to look for:
 - Savings and checking accounts.
 - Loans (personal, mortgage, auto)
 - Investment services
 - Insurance products
 - Online banking and mobile apps
4. **Data Entry:** Enter the collected data into a spreadsheet. Create columns for the institution name, type of service, and a brief description of each service.
5. **Data Analysis:**
 - **Categorisation:** Categorise the services into broader categories (e.g., banking, loans, investments, insurance).
 - **Comparison:** Compare the services offered by different institutions to show commonalities and unique offerings.
6. **Graphs and Charts:** Create visual representations of the data using graphs and charts.
7. **Summary Report:** Write a brief report summarising the findings. Include the visualisations created and discuss any notable trends or differences observed.

Activity 9.5

1. Imagine you have two friends from your community, Nana and Kojo, who are both looking for different types of financial help in Ghana.
 - a. Nana wishes to open a savings account and is also interested in getting a small loan to start a small business.
 - b. Kojo wants to invest his money to grow it and also needs to protect himself from unexpected events like accidents or health issues.
2. As a student of Economics, explain to Nana and Kojo about the types of financial institutions they should go to for solutions to their problems. Explain why you chose the institutions in each case.
3. Write down your choices and discuss them with a friend in school.

Review Questions

- Complete the chart by matching the functions of money with real-life examples.
 - Paying for goods in instalments (hire purchase).
 - Recording wages and salaries of a company in your community.
 - Saving money in a bank account.
 - Using Ghana cedis to buy foodstuffs from a local market.
 - Pricing of items in a supermarket in Ghana cedis.
 - Keeping physical cash at home for future purchases.
 - Taking a loan from a bank and repaying it in instalments.
 - Paying for transportation (trotro or taxi fare).

Functions	Real-life examples
Store of value	
Standard of deferred payment	
Measure of value and unit of account	
Medium of exchange	

- Play this rapid-fire quiz game with your friends in school or at home.
 - Form two groups.
 - Each group should be made up of two or three people.
 - Each team takes turn to answer the rapid-fire question until all the questions are answered.
 - Each correct answer earns a point.
 - The team with the most points at the end wins!

Questions

- What is barter?
- What is cash?
- Name one advantage of using cash over barter.
- Give one example of a situation in modern Ghana where barter trade could still occur.
- Why is cash more commonly used than barter in the modern Ghanaian economy?

- f. How does inflation affect money in Ghana?
 - g. What is one challenge people face with barter in modern Ghana?
 - h. Can cash and barter exist together in an economy?
 - i. How has mobile money changed the roles of cash in Ghana's economy?
 - j. What role does trust play in both barter and cash transactions?
3. Alex recently started a small business selling handmade crafts. He needs help to manage his money, get a loan, and protect his business against risks.

Questions:

- a. Which type of financial institution should Alex visit if he wants to open a savings account and apply for a loan to expand his business?
 - b. Which type of financial institution should Alex consider if he wants to get insurance to protect his business from unexpected events, like damage to his craft materials?
4. What is the main role of depository financial institutions?
- A. To accept deposits and provide loans.
 - B. To print money
 - C. To regulate other banks
 - D. To provide insurance
5. What is the primary function of microfinance institutions?
- A. To provide large business loans
 - B. To print and distribute money.
 - C. To regulate the stock market
 - D. To offer small loans and savings accounts to low-income individuals
6. What do investment institutions help people to do?
- A. Save money in a savings account.
 - B. Invest money to grow their wealth.
 - C. Provide health insurance.
 - D. Print money.
7. What is the main purpose of insurance institutions?
- A. To provide loans
 - B. To regulate other financial institutions
 - C. To protect people from financial loss due to unexpected events
 - D. To print money
8. What is the role of the Bank of Ghana in the economy?
- A. To provide small loans to individuals
 - B. To manage the country's money and financial system
 - C. To offer insurance policies
 - D. To invest in the stock market

Answers to Review Questions

1

Functions	Real-life examples
Store of value	Saving money in a bank account.
	Keeping physical cash at home for future purchases.
Standard of deferred payment	Paying for goods in Instalments (hire purchase).
	Taking a loan from a bank and repaying it in Instalments.
Measure of value and unit of account	Recording wages and salaries of a company in your community.
	Pricing of items in a supermarket in Ghana cedis.
Medium of exchange	Using Ghana cedis to buy foodstuffs from a local market.
	Paying for transportation (trotro or taxi fare).

2.

- a. A system of exchange where goods and services are traded directly without using money.
- b. Money in the form of coins and banknotes used for transactions.
- c. Cash is easier to carry and allows more convenient transactions.
- d. In rural communities where people may exchange farm produce for other goods.
- e. Cash simplifies transactions, is universally accepted, and allows the exchange of goods and services efficiently.
- f. Inflation reduces the purchasing power of cash, meaning you need more money to buy the same goods and services.
- g. Barter requires finding someone who has what you need and wants what you have, which can be difficult.
- h. Yes, although cash is dominant, barter can still exist in certain areas or situations where cash is scarce or not practical.
- i. Mobile money has reduced the need for physical cash, making transactions more digital, accessible and time saving.
- j. In barter, both parties must trust that the items exchanged are of equal value, while in cash transactions, there is trust in the value of money.

3.

- a.** Alex should go to any depository Institution in his community or district. Examples of depository institutions are:
 - a.** GCB Bank (for saving money and getting loans)
 - b.** First Allied Savings and Loans (for saving and borrowing)
 - c.** Agricultural Development Bank (for saving money and getting loans)
- b.** Alex should go to any Non-Depository Institution in his community or district. Examples of non-depository institutions are:
 - a.** Databank Group (for investment services)
 - b.** EDC Investments (for investment opportunities)
 - c.** Insurance companies like StarLife Insurance (for protection against unexpected events)

4.

- a.** To accept deposits and provide loans.
- b.** To offer small loans and savings accounts to low-income individuals
- c.** Invest money to grow their wealth
- d.** To protect people from financial loss due to unexpected events
- e.** To manage the country's money and financial system

EXTENDED READING

- Understanding Money: Its Properties, Types, and Uses ([investopedia.com](https://www.investopedia.com))
- <https://youtu.be/pdSqtCfUTRE>
- Functions of Money - Overview, Medium of Exchange ([corporatefinanceinstitute.com](https://www.corporatefinanceinstitute.com))
- <https://www.sofi.com/learn/content/what-is-a-depository-institution/?msockid=3ad51418d9f669940be400d3d8916825>
- History of Ghanaian currency since 1957 to date ([youtube.com](https://www.youtube.com))

Refer to any Economics Textbook in the School Library and those recommended by your Economics Teacher.

GLOSSARY

- **Exchange:** This means giving something you have to get something you want from someone else.
- **Credit card:** It is a small plastic card that lets you borrow money from a bank to buy things.
- **Debit card:** It is a small plastic card that lets you spend money directly from your bank account.
- **Cheque:** It is a piece of paper that lets you withdraw money from your bank account.
- **Bank account:** It is a safe place where you keep and manage your money in a bank.
- **Electronic:** A machine or device that runs on electricity, like computers, phones, and TVs.
- **Online banking:** It is a way to manage your bank account using the Internet.
- **Reserves:** Any extra money kept for future use or emergencies.
- **Transaction:** An exchange of goods, services or money between two or more parties.
- **Monetary value:** Refers to the value of something in terms of money, or the amount of money that something is worth.
- **Invest:** To put money or resources into something with the expectation of getting a profit or benefit in the future.
- **Insurance:** A financial development plan that protects against specific risks like accidents, illness, natural disasters, or death in exchange for some payments made by the insurance holder.
- **Instalment:** A regular payment (equal or small) made to pay off a debt.

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List of Contributors

Name	Institution
Benjamin Agyekum	Mangoase SHS
Eunice Bentil	Aquinas SHS
Salitsi Freeman Etornam	Anlo SHS