

Difference Between Fiat Money And Commodity Money



Money is a legal tender generally used as a medium of exchange or make payment in different forms like a coin or a stamped currency. Both these are the type of money and each one is explained in detail as below.

Fiat Money

- Fiat money was introduced in 1000 A.D. in China as an alternative to the commodity money and representative money. But the use of it started in the 20th century widely by various countries.
- Fiat money is a currency which is declared by the government or by the law as a legal tender to use it as a medium to the economic transactions. It means the value of currency comes from the government.
- Fiat money is not supported by precious metals like gold, silver. Stones, diamond etc.
- Value of fiat money is separate to the value of a physical quantity.
- In fiat money, the face money is greater than its token value.

Commodity money

- Commodity money is another type of money whose value comes from a commodity or goods itself as the name suggests.

- Commodity money is the money which has dual value status it means it carries the value in their usage as a money and value of intrinsic value (themselves).
- Commodity money includes various types of a commodity like gold, silver, copper, precious stone and much more. As said all of these has value by themselves and as a money.
- The main characteristic of commodity money is that its value is directly noted by the commodity user who uses its benefits.
- Difference between fiat money and commodity money

Meaning:

- The fiat money is a legally claimed money as it attains all their property from the law, it is like a purchase voucher which is used as an exchange for goods and services and the purchasing power of fiat money varies from time to time.
- Commodity money is obtained from the value from commodity or goods from which it is made. It is used for an exchange.

For example. Gold, Silver, metals etc.

Government interpretation

- In fiat, money government is maintained by the government in a fiat monetary system and the government has full control over the supply of it.
- Government is not entitled to make any manipulation in the commodity money because there is no need as a known commodity has themselves intrinsic value.

Nature of currency

- Fiat money is associated with government debt and it is interest-free.
- While commodity currency is an economic currency and the demand and supply of it is determined by the need of an economy because it is related to the real existence of commodity and goods.

Quantity determination

- The quantity of fiat money is determined by the governmental monetary policy and the monetary policy is determined by the expert opinion. So we can say that fiat money is totally based on the knowledge and expertise of an expert.
- The quantity of commodity money is determined by the market force. It means it is supplied in the needed time only.

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