

Running Head: EFTS

Are We Headed for a Cashless Society?

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1. Why is there a demand for money?

Basically, there is a demand for money because it is a requirement when one demands goods and service. There is a demand for money because of its importance in daily survival. Money is needed to sustain the basic needs of man: food, shelter and clothing. Without money, a person cannot purchase a product and cannot avail of services.

According to Suranovic (2005), the demand for money "represents the desire of households and businesses to hold assets in a form that can be easily exchanged for goods and services. Spendability, or liquidity, is the key aspect of money that distinguishes it from other types of assets. For this reason, the demand for money is sometimes called the demand for liquidity."

There are two distinct categories of the demand for money: the transactions demand and the speculative demand.

The first type of money demand is transaction. This demand for money means that people demand for money because they expect to use it to be something sometime in the future. People demand for money because they expect to make transactions for goods and services soon. The amount of demand for money depends on the value of the anticipated transaction.

On a different level, the economic wide demand for money is determine by the "total value of all transactions in the economy during a period of time" (Suranovic, 2005). This means that "the GDP or the value of all goods and services produced during the year will influence the aggregate value of all transactions since all GDP produced will be purchased by someone during the year" (Suranovic, 2005). Stated simply: "Anytime GDP rises, there will be a demand for more money to make the transactions necessary to buy the extra GDP." (Suranovic, 2005). If

GDP falls, then people demand less money for transactions" (Suranovic, 2005). This means that more products or services are produced but the prices for all products remains the same, then the GDP will increase and people will demand more money to be able to avail of services or purchase more goods. Conversely, if the prices of goods and services rise and even if the GDP does not increase, the demand for money will still rise because people will need more money to purchase the high-valued products and services (Suranovic, 2005).

The second type of money demand is speculative. The second type of money demand is speculative. This type of demand for money arises when a person considers the opportunity cost of handling money (Suranovic, 2005). Holding money is one way of holding wealth or value. Aside from holding money, holding wealth or value can be in other forms such as savings deposits, certificate of deposits, mutual funds, stock, or even real estate (Suranovic, 2005). Most of the other forms of holding money provide assets interest payment or a positive rate of return. Thus, when one demands money and hold on to it, one loses the opportunity to earn an interest or a positive return of investment.

Most assets considered money, such as coin and currency and most checking account deposits do not pay any interest. If one does hold money in the form of a NOW account (a checking account with interest) the interest earned on that deposit will almost surely be less than on a savings deposit at the same institution. Thus to hold money implies giving up the opportunity of holding other assets that pay interest. The interest one gives up is the opportunity cost of holding money (Suranovic, 2005).

When a person holds the money, opportunities to earn interest are gone. Thus, holding money becomes costly. Therefore, the demand for money should be affected by the cost of holding money. "It is likely that as average interest rates rise, the opportunity cost of holding

money for all money holders will also rise, and vice versa. And, as the cost of holding money rises, people should demand less money” (Suranovic, 2005). This means that as interest rates increases, the demand for money decreases. Conversely, when interest rates fall, the demand for money will rise (Suranovic, 2005). “The speculative demand for money, then, simply relates to component of the money demand related to interest rate effects (Suranovic, 2005).

2. Who will benefit from an EFTS? Who will loss?

EFTS or Electronic Funds Transfer System (EFTS) enables financial transactions to be done electronically. It allows easy, convenient, and accessible methods of conducting financial transactions such as the following:

- Sale: where the cardholder pays for goods or service (Wikipedia, 2007, “Electronic Fund Transfer”);
- Refund: where a merchant refunds an earlier payment made by a cardholder (Wikipedia, 2007, “Electronic Fund Transfer”);
- Withdrawal: the cardholder withdraws funds from their account, e.g. from an ATM. The term Cash Advance may also be used, typically when the funds are advanced by a merchant rather than at an ATM (Wikipedia, 2007, “Electronic Fund Transfer”);
- Deposit: where a cardholder deposits funds to their own account (typically at an ATM).
- Cash back: where a cardholder withdraws funds from their own account at the same time as making a purchase (Wikipedia, 2007, “Electronic Fund Transfer”);
- Inter-account transfer: transferring funds between linked accounts belonging to the same cardholder (Wikipedia, 2007, “Electronic Fund Transfer”);
- Payment: transferring funds to a third party account (Wikipedia, 2007, “Electronic Fund Transfer”);

- Inquiry: a transaction without financial impact, for instance balance inquiry, available funds inquiry, linked accounts inquiry, or request for a statement of recent transactions on the account (Wikipedia, 2007, “Electronic Fund Transfer”);
- Administrative: this covers a variety of non-financial transactions including PIN change (Wikipedia, 2007, “Electronic Fund Transfer”);
- The transaction types offered depend on the terminal. An ATM would offer different transactions from a POS terminal, for instance (Wikipedia, 2007, “Electronic Fund Transfer”).

Generally, the EFTS benefits the consumers. With EFTS, consumers can easily perform financial transactions within the comforts of their homes at any given time. Banking transactions such as deposits and withdrawals can be done even if the bank is already close for business. Likewise, financial institutions are able to improve their services and products through the EFTS. Moreover, paper works such as check writing, deposit/withdrawal slips application can now be done electronically. Initially, the EFTS may be costly for any firm as new technology including information systems has to be developed and implemented. The long-term benefits of EFTS outweigh the costly expense of computerization and automation of financial transactions. This is because service delivery becomes faster and efficient. Also, the firm may be able to cut down on its workforce, thus, saving on wages and benefits.

With the development and availability of EFTS comes the electronic money. As EFTS allows financial transactions to be done electronically, the need for the currency seems to have decline. Money is now being transferred from one location to another with just the click of a mouse. Bills can be paid with just a click on the computer. With such developments, less cash, bills or coins are being handled physically by people. Goods and services are purchased online

and payments are done electronically. With all these conveniences of EFTS and electronic money, more and more people are drawn to the idea of using EFTS and electronic money when shopping and paying bills. Companies also use EFTS to pay its workers as well as to provide services to clients.

With the convenience, accessibility, and prompt service provide by EFTS and electronic money, the need to have tangible cash has diminished. Most consumers are now doing their financial transactions online: bill payments, online banking, and online shopping. People are now getting used to the idea of carrying a plastic card which could either be credit card or electronic money card instead of the paper money. Financial institutions such as banks are now offering services where customers can transfer funds, purchase stocks, and contribute to their retirement plans without having to handle physical bill or actual money (Wikipedia, 2007, “Electronic Money”).

While there seem to be many advantages for EFTS, there are also some issues and concerns regarding EFTS and electronic money, especially in terms of security, identity theft, and invasion of privacy, fraud, and technology failure (Wikipedia, 2007, “Electronic Money”). Computer system hacking and illegal entry have promoted invasion of privacy and identity theft. Hackers gain illegal access to the database of a financial institution or business firms and steal the password of credit cards and electronic money cards. Hacker will then use the illegally obtained information to purchase goods and services and the real owner of the credit card or electronic money card will be charged with purchases he/she did not make.

EFTS is beneficial because it allows financial transactions to be completed even without tangible cash; however, much has still to be done in terms of providing security and protecting the identity and privacy of clients.

References

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