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The Effects of Electronic Payments on Monetary Policies and Central Banks

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Abstract

The aim of the study is to define the possible effects of electronic payments, which are distinct from conventional payment systems, on central banks and their policies. Since the existence of civilizations, many different values are used for exchange of commodities, goods and services. By the development of modern economics theory, banknotes which is easier to produce, has been started to use instead of precious metals. The monetary value of the banknotes and mintage responsibility were transferred to the central banks. These central banks are tasked with controlling the monetary policies, generally with the goals of economic growth, price stability and stability of financial systems. Recently, the growing understanding of money has become completely different from traditional money and don't control or produce by central banks. However it serves as money and it carries the same specialties. Users are also able to reach and transfer electronic money without intermediaries and central banks. Electronic money is produced and secured by internet codes. Despite the complicated matrix codes, still there are doubts on its security. Some countries prohibited their usage as a policy decision. The most popular electronic money currencies are Bit coin, E-Cash, Visa, PayPal and Check- Free all over the world.

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1. Introduction

Different kinds of changing unit have been used throughout the history. Money has been an indispensable part of humanity for 3.000 years. Before the invention of money, trade actualized by exchange of goods which is called as bartering system. It's a direct trade of goods and services; even today some people or governments often use barter trade for exchange of goods and services.

The first officially known money as a coin was invented in the 5th century by King Alyattes in Lydia. The coins were made from electrum, a mixture of silver and gold that occurs naturally, and stamp with pictures that acted as denominations. The money as a currency was not created by states. Money was created because people who wanted to trade their goods, found a medium of exchange. Money became more useful when more and more people began to use it as a medium of exchange (Schlichter, 2011:27). By the developments and needs of economy, the form money is changed to banknotes; which is easier to produce, carry and store, have been started to use instead of precious metals and goods.

In a commercial system, banks play a big role on development of money. History of banking system goes around 2000 B.C, first loans made between grain merchants and traders who transported goods across Assyria and Babylonia. The first official report of transactions and commercial papers were prepared at temples and palaces. The code of Hammurabi, one of the earliest known law makers, refers to laws governing a form of banking system. It is not easy to apply Hammurabi's rule to our modern financial banking system, however one key point still remains. Before and now, the financial system turns around headquarters. In ancient world these headquarters were temples, while today they are central banks (Kelly, 2015:60).

2. Functions of Money and Central Banks

The money is useless without trade and trade is possible only if private property reside. In socialist and communist systems, where all resources is controlled and used by government, there would be no need for medium of exchange. To being contrast to communism, capitalist system can be described as "A social system based on the explicit recognition of private property and contractual exchange between private property owners" (Schlichter, 2011:26). It means money is an obligation for capitalist economic system.

In a modern economic systems money has three functions: medium of exchange, store value and unit of account (Franco, 2015:21).

- Medium of exchange: Money can be exchanged for goods and services.
- Store of value: Money can be used to transfer purchasing power from the present to future.
- Unite of account: Goods and services are quoted in terms of money unit.

Currencies in use today are fiat currencies, where the currency is issued by government and its supply is managed by a central bank. Fiat currency does not have real worth unless it is supported by power. It is called as money since it is backed by a government as a legal tender. The validity of fiat value depends on the countries social, prosperity and future expectations. If trust in a currency is lost, because of different reasons, it means the money may stop being approved (Franco, 2015:21).

The historical monetary policy experiences have shown that, leaving the control of monetary policy to governments may cause undesirable results. Government could have willing to increase the money supply to solve economic recessions. This action can cause a loss of trust and increase the general price stability in an economy (Franco, 2015:5).

The most selected way to set price stability is to resign monetary policy to a semi-independent central bank. By the way the central bank may direct its monetary policy to satisfy the needs of the economy (Franco, 2015:5).

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