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Gold Loses Some Of Its Shine

Apr 21, 2013 By Anita Ramachandran

Read the article, annotating it as you read. Create four open-ended questions based on this article.

Last week, the financial markets were rattled by a plunge (sharp drop) in gold prices. The price of an ounce of gold fell by nearly $200 in two days -- the steepest fall in the price of the metal since 1980.

Why is gold important? Gold is a precious metal valued greatly for investments. Besides being used for making jewelry and stored as gold bars, gold has been stashed away in vaults by individuals and countries for centuries because of its value. Did you know that it had even played a part in history as a measure for money? Known as the 'Gold Standard', countries have relied on gold to price their currencies.

History of money

People use dollar bills in the US to buy and sell things. In other countries, they use bills and notes in their own currency. If you think about it, the paper money we handle is no different from the monopoly money. But what makes this paper money valuable, while the monopoly paper is useless?

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The $20 bill is valuable because both you and the shop owner understand that the US Government guarantees the 20 dollars. And money guaranteed by a Government is acceptable everywhere -- this is called *fiat money*.

Well this is today. In earlier times, folks used to trade 'commodity money'. Items like shells, coins, heads of cattle, gold, etc were used as money. As trade flourished, countries came up with the idea of printing money on paper. In times of crisis they could even exchange the paper money for the item of value. Then came the question, how can one country trust the value of an item traded by another country. The gold standard was born.

The Gold Standard

Countries figured that a precious commodity like gold or silver could be used to set the value of their currency. It could not be forged (copied) or destroyed. It did not corrode and had been used by ancient civilizations. While some settled on gold, a few countries used both gold and silver to 'back' their currency.

The US officially adopted the Gold Standard Act in 1900. According to the gold standard, since paper money could be exchanged for Gold, countries had to physically store as much gold as the value of printed money.

However problems occurred when new gold was discovered in Australia and California. Gold prices became unstable. Meanwhile, the standard worked only as long as all countries followed rules. During World War I, some countries began printing more money than the gold they had, to finance wars. Gold standard was briefly reintroduced from 1925 to 1931 until UK decided to completely withdraw from the Gold standard.

The New Money Era

Soon after World War II, most countries decided to keep a small percentage of their currency as physical gold. This practice was eventually abandoned by countries in the 1970s after the US officially withdrew from the gold standard in 1971. However the practice of maintaining some gold reserves by the Central banks of several countries still continues today. The US maintains its physical reserves of gold at Fort Knox, Kentucky.