

MONEY AND ITS FUNCTIONS

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Money

- ▶ Money is any good that is widely used and accepted in transactions involving the transfer of goods and services from one person to another.
- ▶ Money, a commodity accepted by general consent as a medium of economic exchange.

KINDS OF DEFINITIONS OF MONEY

- ▶ Definitions based on general acceptability
- ▶ Descriptive or functional definitions.
- ▶ Legal definitions

Definitions based on general acceptability

- ▶ According to Keynes" Money itself is that by delivery of which debt contracts and price contracts are discharged and in the shape of which is store of general purchasing power is held"
- ▶ According to Robertson" Anything which is widely accepted in payment for goods or in discharge of other kinds of business obligations."
- ▶ According to Pigou, "In order of anything to be classed as money, it must be accepted fairly widely as an instrument of exchange, which means that a good number of people are ready to accept in payment for goods and services provided by them."

Descriptive or Functional Definitions

- ▶ According to Crowther, "Money can be defined as anything that is generally acceptable as a means of exchange (as a means of settling debts) and that at the same time acts as measure and as a store of value."
- ▶ According to Hartley Withers, "Money is what money does."
- ▶ According to W.A.L.Coulborn, "Money may be defined as the means of valuation and of payment."

Legal Definitions

- ▶ According to Hawtrey, "Money is used in two main forms, one is the unit of account and secondly it is law acceptable."

FUNCTIONS OF MONEY

Functions of money can be broadly categorised into the following three types:

- 1) Primary functions of money
- 2) Secondary functions of money
- 3) Contingent Functions of money

Primary functions of money

- ▶ i) Medium of exchange:
 - It means that money can be used to make payments for all the transactions of goods and services.
 - A buyer can buy goods through money, and a seller can sell goods for money.
 - It is an essential function of money.
- ▶ ii) Measure of value:
 - Money serves as a measure of value.
 - The value of all goods and services is expressed in terms of money

Secondary functions of money

▶ i) Standard of deferred payments:

- It means that money acts as a 'standard' for making future payments.
- It has made deferred payments much easier than before.

Example: When we borrow money from somebody, we have to return both the principal as well as the interest amount in the future.

- Money is a convenient mode of calculation and payment of interest amount to be paid in the future.
- This function has facilitated borrowing and lending.
- It has also led to the creation of financial institutions.

Secondary functions of money

▶ ii) Store of value:

- A store of value implies a store of wealth.
- Money can be easily stored for future use.
- It is the most convenient and economical means to store earnings and wealth.

iii) Transfer of value:

- Money also serves for transfer of value.
- It facilitates buying and selling of goods not only in the domestic country but also in other parts of the world

CONTINGENT FUNCTIONS OF MONEY

- ▶ Basis of credit.
- ▶ Distribution of Social income.
- ▶ Liquidation of wealth.
- ▶ Basis of Equalizing Marginal Utility and Marginal Productivity.