

FUNCTIONS OF MONEY

DEFINITION OF MONEY AND ITS FUNCTION

There is much difference in opinion of scholars regarding the 'definition of money'. Someone has based the definition of money on the universal acceptance; whereas someone else has taken its function as the central issue in the definition. So for the convenience of study, definition of money can be classified as follows **on the basis of their nature.**

DEFINITIONS BASED ON THE NATURE OF MONEY

Definitions on the basis of nature of money can be classified into following three groups

1. Descriptive or functional definitions: This category includes definition of these scholar who stated functions of money in their definitions. Some important definitions of this category are given below:

(i) According to **Crowther**, “Money is anything that is commonly used and generally accepted as means of exchange and at the same time acts as measure and store of value.”

(ii) According to **Prof. Thomas**, “It is a means to an end not for its own sake but as a means of obtaining other’s articles or commanding the service of others”

(iii) According to **Coulborn**, “ Money may be defined as the means of valuation and payment.”

(iv) According to **Nogaro**, “ Money is a commodity which serves as an intermediary in exchange and as a common measure of value.”

(v) According to **Hartle Withers**, “ Money is what money does.”

(vi) According to **whitelesy**, “If a particular unit is commonly employed to state value, exchange goods and services or perform other money functions than it is money whatever its legal or physical characteristics.”

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- (A) **Primary Functions:** Primary functions of money are those functions which are applicable in any country in every time and circumstances. Following two functions come in this category:
- (1) **Medium of Exchange:** Once upon a time barter system of exchange was in practice. Many difficulties had to be faced those days. Measuring the value of goods and the need of double coincidence of wants were big difficulties. Exchange has become very easy with the invention of money. Today, any goods or services can be sold in exchange of money and the commodities and services can be purchased with money. Thus money is the convenient means of exchange.

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2. **Measure of value:** It was a problem with the barter system that how many units of a commodity. Now, every commodity and every service can be measured in money. Being a medium of exchange, money is also a medium of measure of value. It means that money is the only unit of measurement of exchange ratio between two commodities. But it is also important to note that value of money changes from time to time. Consequently, gross measurement of money is still troublesome.

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(B) **Secondary Functions:** Functions which help in the primary functions of money are called secondary functions. Following functions come in this category:

1. **Standard for Deferred Payments:** The present era is the era of credit. Credit plays an important role in the progress of any business. Credit is a system in which goods and services are exchanged or money is borrowed on the promise of future payments. The use of money has made the credit system quite easy. In barter system future payments were made in commodities only. The lack of durability in the goods posed many problems in future payments. Money is more durable in comparison to commodities and so it becomes the basis of future payments.

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(2) **Store of Value:** Nobody knows what the future stores for him/her. So people want to do saving considering the needs to meet the expenses in diseases, marriage, old age etc. in the days of Barter System it was not possible to store commodities for a long period, But the invention of money has eased the process of storing money or wealth. Banking system also operates using this characteristics of money. This feature of money promotes the tendency of saving which leads to capital formation and activities the economic development of a country.

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(3) **Transfer of Value:** Transfer of value plays an important role in the process of economic development of a country. Today, the scope of exchange is very vast. People are getting success in selling their immovable at a place and purchasing far off. Economic pace has increased due to this function of money.

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(C.) **Contingent functions:** Kinley has stated that money performs contingent functions besides primary and secondary functions. Some of such functions are:

1. **Distribution of Income:** The work of production has become wide and complex in the present era. Various sources contribute in the work of production. Sources of production are paid for their contribution after selling the produced goods and getting money. The job of production is possible only due to this role of money. Thus, money is the basis of social distribution of income.

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- (2) **Giving a General Form to Capital:** Money has the maximum liquidity among all forms of capital. That is why a capital in the form of money can be brought into any use. Due to liquidity of money, capital can be drawn from the less productive areas into more productive areas.
- (3) **Basis of Credit:** Credit instruments are increasingly being used these days. Cheques, bank drafts, bill of exchange, hundi etc. are commonly used for payments. But money is hidden in these credit instruments. Banks issue drafts or allow the use of cheque against liquid money only. Thus, money does the work of credit.
- (4) **Maximum Satisfaction:** Every consumer wants to get maximum satisfaction. To achieve maximum satisfaction, he wants to spend his income to meet various needs in such a way that he can get equal marginal utility from every commodity.

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Other functions:

- (1) **Liquidity:** Money gives liquidity to assets. Due to liquidity, money can be used for any purpose.
- (2) **Bearer of option:** Money has purchasing power. This purchasing power is of both kinds-present and future. People store money to meet future needs and use that money in future according to their own wishes.
- (3) **Guarantor of Solvency:** Every person or firms keeps sufficient money in reserve to maintain the ability of solvency. If they don't have sufficient money in reserve to maintain the ability of solvency. Thus, money works as an indicator of guarantee of ability or solvency.

Thank You.