

ROLE OF MONEY IN ECONOMIC LIFE

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Money plays a very important role in human life. According to **Prof. Marshall**, **“Money is the pivot around which the whole economic science clusters.”** Similarly P.B. Trescott has said, **“If money is not the heart of our economic system, it can certainly be considered as its blood stream.”**

(1) In the field of consumption : Consumption has the highest place among all economic activities. If there is no consumption has the activities of production, demand, supply etc. would come to an end. People use goods and services to fulfill their various needs. Consumers seek maximum satisfaction from their consumption. For this they want to spend their income in various commodities so that they can able to get marginal utility. The concept of law of Equi-Marginal utility given by gossen is based on this hypothesis.

(2) In the field of production : Land, capital, labour and organisation are source of production. These sources can be achieved only with the help of money. The cost production and selling price are determined in money only. Money encourages savings and savings create capital formation. The faster process of capital formation in the country is the cause for the higher rate of production because capital plays an important role in setting up industries. Money is a liquid asset, so it can be made active and hence more productive. The modern division of labour and specialisation are based on money itself. All the factors of production are paid in money only.

(3) In the field of exchange : The production of a commodity relevant only when it can be sold. The selling price of a commodity depends on its cost of production. In determining the cost production some direct expenditure as well as indirect like depreciation, insurance etc. are includes. These expenditures are measured in money only on the basis of these expenditures the selling price of the commodity is determined. Thus, money plays an Important role in the field of exchange. It also promotes international trade. Money is also the basis of credit.

(4) In the field of distribution : Once the production is completed , rent to the landowner, interest to the capital provider, wages for labourer, profit to the entrepreneur etc. have to be distributed i.e. paid in money. The returns for all these are not possible without money. Thus money has a special place in the just distribution of the required national income.

(5) In the field of Public Finance: The government plays an important role in the nation's progress. The government meets the expenditures in the interest of public with income. The area of public expenditure is very large in any country. Its prediction and expenditure both can be fulfilled by money only. The collection of various kinds of taxes levied by the government is not possible without money. Thus, money has an important place in the field of finance as well.