



# **JAYOTI VIDYAPEETH WOMEN'S UNIVERSITY, JAIPUR**

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## **Faculty of Education and Methodology**

**Faculty Name-** JV'n Dr. Md Meraj Alam

**Program-** BA B.Ed 4<sup>th</sup> Semester

**Course – Money Banking and Public Finance**

Digital session name – **Functions of Money: Part - 1**

### **Introduction:**

Money performs a number of primary, secondary, contingent and other functions which not only remove the difficulties of barter but also oils the wheels of trade and industry in the present day world. We discuss these functions one by one.

### **Primary Functions:**

The two primary functions of money are to act as a medium of exchange and as a unit of value.

#### **(i) Money as a Medium of Exchange:**

This is the primary function of money because it is out of this function that its other functions developed. By serving as a medium of exchange, money removes the need for double coincidence of wants and the inconveniences and difficulties associated with barter. The introduction of money as a medium of exchange decomposes the single transaction of barter into separate transactions of sale and purchase thereby eliminating the double coincidence of wants.

This function of money also separates the transactions in time and place because the sellers and buyers of a commodity are not required to perform the transactions at the same time and

place. This is because the seller of a commodity buys some money and money, in turn, buys the commodity over time and place.

When money acts as a medium of exchange, it means that it is generally acceptable. It, therefore, affords the freedom of choice. With money, we can buy an assorted bundle of goods and services. At the same time, we can purchase the best and also bargain in the market. Thus money gives us a good deal of economic independence and also perfects the market mechanism by increasing competition and widening the market.

As a medium of exchange, money acts as an intermediary. It facilitates exchange. It helps production indirectly through specialisation and division of labour which, in turn, increase efficiency and output. According to Prof. Walters, money, therefore, serves as a 'factor of production,' enabling output to increase and diversify.

In the last analysis money facilitates trade. When acting as the intermediary, it helps one good or service to be traded indirectly for others.

#### **(ii) Money as Unit of Value:**

The second primary function of money is to act as a unit of value. Under barter one would have to resort to some standard of measurement, such as a length of string or a piece of wood. Since one would have to use a standard to measure the length or height of any object, it is only sensible that one particular standard should be accepted as the standard. Money is the standard for measuring value just as the yard or metre is the standard for measuring length.

The monetary unit measures and expresses the values of all goods and services. In fact, the monetary unit expresses the value of each good or service in terms of price. Money is the common denominator which determines the rate of exchange between goods and services which are priced in terms of the monetary unit. There can be no pricing process without a measure of value.

The use of money as a standard of value eliminates the necessity of quoting the price of apples in terms of oranges, the price of oranges in terms of nuts and so on. Unlike barter, the prices of such commodities are expressed in terms of so many units of dollars, rupees, francs, pounds, etc., depending on the nature of the monetary unit in a country.

As a matter of fact, measuring the values of goods and services in the monetary unit facilitates the problem of measuring the exchange values of goods in the market. When values are expressed in terms of money, the number of prices are reduced from  $n(n-1)$  in barter economy to  $(n-1)$  in monetary economy.

Money as a unit of value also facilitates accounting. “Assets of all kinds, liabilities of all kinds, income of all kinds, and expenses of all kinds can be stated in terms of common monetary units to be added or subtracted.”

Further, money as a unit of account helps in calculations of economic importance such as the estimation of the costs, and revenues of business firms, the relative costs and profitability of various public enterprises and projects under a planned economy, and the gross national product. As pointed out by Culbertson, “Prices quoted in terms of money become the focus of people’s behaviour. Their calculations, plans, expectations, and contracts focus on money prices.”