

Functions of Money

3.1 First part

Money is best described as a medium of exchange, a unit of account, and a store of value. These three functions of money together are said to distinguish money from other financial assets such as bonds or shares. Money has also another function which is the standard of deferred payment that is Money also serves as the unit or standard for making future payments.

Functions of Money

1 Medium of exchange: Money can be used for buying and selling goods and services. The primary and unique function of money is that of acting as a medium of exchange. (SB Gupta Monetary Economics). The use of money as a common medium of exchange has facilitated exchange greatly. This characteristic also helps separate money from non money assets. This is the primary function of money from which all other functions are derived.

This medium of exchange has facilitated exchange to take place easily otherwise there must be a double coincidence of wants for the exchange to take place in case of barter economy (where one good is exchanged for another good).

2 Money as unit of Account

Money generally serves as a unit or measure of value in terms of which all goods and services are expressed. Money is the common standard for valuing the relative worth of goods and services. Prices which are actually values per unit of goods and services are expressed in terms of money. These prices being expressed in a common unit can be compared with each other. However, the fact that money is used as a store of value by itself is not perfect. For its own value does not always remain constant. It varies from time to time Refer to SB Gupta

3 Money as standard of Deferred Payment

Money also serves as the unit or standard for making future payments. This applies for loans, interests etc. Large fluctuations in the value of money either by inflation or deflation (continuous decrease in price level) make money inappropriate measure of value.

4 Money as a store of Value

In order to be a medium of exchange, money must hold its value over time; that is, it must be a store of value. Members of Public can hold their wealth in the form of money. As a store of value, money is not unique there are many other stores of value such as land , other assests. However, money is more liquid than other assets because of the first function, namely, the medium of exchange.

Students are advised to refer to the book by S B Gupta Monetary Economics Institutions theory and Policy S Chand and Company Limited

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