

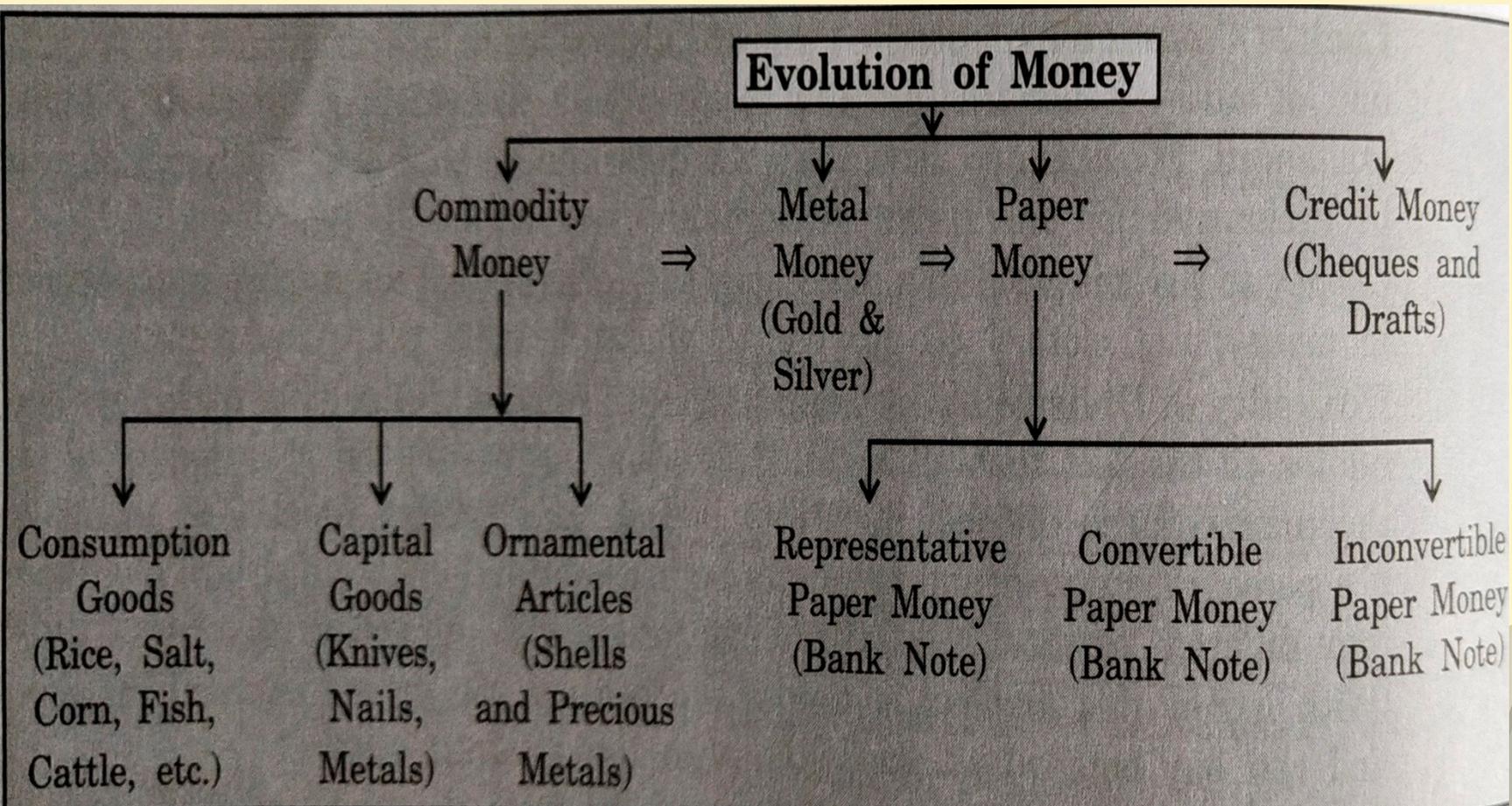
# **MEANING AND FUNCTIONS OF MONEY**

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# Meaning and definition of money

- The word 'money' is derived from the Latin word 'Moneta' which was the surname of Roman Goddess of Juno. Money was coined in her Temple at Rome
- Money is define as anything that is generally acceptable as a means of exchange and that at the same time act as a measure and as a store of value.
- Money has three important functions i.e medium of exchange, a standard value and a store value.

# Evolution of money



# DEFINITIONS OF MONEY

## Definitions of Money

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graph TD; A[Definitions of Money] --> B[Descriptive or Functional Definitions]; A --> C[Legal Definitions]; A --> D[Common Acceptability Definitions]; B --> E["Definitions of Hartley Withers, Coulborn, Thomas, etc."]; C --> F["Definition of Knapp"]; D --> G["Definitions of Seligman, Cole, Keynes etc."];
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Descriptive or  
Functional  
Definitions

Definitions of  
*Hartley Withers,*  
*Coulborn,*  
*Thomas, etc.*

Legal  
Definitions

Definition of  
*Knapp*

Common  
Acceptability  
Definitions

Definitions of  
*Seligman, Cole,*  
*Keynes*  
etc.

# Descriptive or functional definition

- According to **Coulborn** , *‘Money may be defined as the means of valuation and payment’*.
- According **to Hartley Withers** , *“ Money is what money does”*.
- According to **Thomas**, *“ It is a means to an end not for its own sake but as a means of obtaining other articles or of commanding the service of others.”*

# Legal definition

- According to **Knapp**, “ *Anything which is declared by state as money , becomes money*”.

# Common acceptability definitions

According to **Seligman** , “ *Money is one thing that possesses general acceptability.*”

According to **G.D.H Cole** , “ *Money is simply purchasing power something which buys thing, it is anything which is habitually or widely used as a means of payment and is generally acceptable in the settlement of debts.*”

According to **Keynes** , “ *Money is that by delivery of which debt contracts and price contracts are discharged and in the shape of which a store of general purchasing power is held.*”

# Functions of money

PRIMARY FUNCTIONS

SECONDARY  
FUNCTIONS

CONTINGENT  
FUNCTIONS

# Primary functions

- 1. Medium of Exchange: Money act as a medium of exchange. It has the quality of general acceptability. In modern days, exchange is the basis of entire economy and money makes this exchange possible. It was on account of the difficulties and inconveniences (lack of double coincidence of wants) of Barter system the money came into existence.
- 2. Measure of Value: Money act a unit of measure of value. In other words, it acts as a yardstick of standard measure of value to which all other things can be measured. Value of all goods and services is expressed in terms of money.

# SECONDARY FUNCTION

- **Standard of Deferred Payments** : Money has proved to be a suitable standard of deferred payment as it is more durable and stable compared to values of other commodities . It has the quality of general acceptability. Hence it is always desirable.
- **Store of Value** : Money can be stored for future use. It has this merit because its utility is never lost. It serves as an excellent store of wealth, as it can be easily converted into other marketable assets , such as land, machinery , plant etc.
- **Transfer of Value** : Money is a liquid means of exchange . Hence purchasing power of money can easily be transferred from one person to another and from one place to another.

# Contingent functions

- **Basis of Credit** : At present credit is used as money on the basis of money, Bank and Financial institutions create credit on the basis of money.
- **Basis of Distribution of Social Income** : Total output of the country is jointly produced with the help of different factors of production (Land, Labor, Capital and Enterprises). So, the output should be distributed among them. Money helps in the distribution of the national product in the form of Rent, Wage, Interest and Profit, , which are expressed in money terms.
- **Basis of Maximum Satisfaction and Production** : A Consumer maximizes his satisfaction by equating the prices of each commodity (in terms of money) with its marginal utility. Similarly, a Producer maximizes his satisfaction by equating the marginal productivity of a factor with price of that factor.
- **Helpful in Making Capital Liquid and Mobile** : Money makes capital liquid and mobile.
- **Guarantee of Solvency** : Money acts as a guarantee of solvency for an individual or institution. Every individual or institution prefers to keep some money ready as cash deposits. Money deposits serve as a guarantee against solvency.
- **Bearer of Option** : Money serves as a bearer of option which implies that accumulating wealth in the form of money , any individual can change their decision regarding the goods and services as and when the situation demands.

# Static and dynamic functions

- ***Paul Eining*** has classified functions of Money into two broad groups:
- **1.STATIC FUNCTIONS:** Static functions are those which help the operation of the economy but these do not create movement in the economy like medium of exchange, measure of value , store of value and measure of deferred payment are the static functions of money.
- **2.DYNAMIC FUNCTIONS :** The dynamic functions are those by which money actively influences the economic system through its impact on price level , interest rates ,volume of productions , distribution of wealth and Incomes etc.

**STAY HOME , STAY  
SAFE**