

Functions of Money

Functions of Money can be divided into four categories.

- (i) Primary Functions
- (ii) Secondary Functions
- (iii) Contingent Functions
- (iv) Other Functions

All the above functions are again classified into various parts according to the use.

Teacher's Signature

(i) Primary Functions:

Primary Functions are applicable in any country, every time and circumstances. It is again classified in two categories.

(a) Medium of Exchange

(b) Measure of Value

(a) Medium of Exchange:

In earlier days barter system was in practice, there was very difficulty as many person was not ready to take your goods in exchange of their goods or services, but in the case of money every one easily accept it in return of their goods and services. So, we can say that money is the convenient means of exchange.

(b) Measure of Value: In barter system

any one could not justify the value of product which was exchanged, it totally depended on the urgency of want and satisfaction but now days every goods and services can be measured in money giving a stability to the price of commodity. So, it acts as a measure of value.

So, it means that money is only the unit of measurement of exchange ratio between two commodities.

For example

Liquid is measured in litres which is a fixed quantity and we pay the price of the fixed quantity of the liquid. Same is the case with cloth or cereals.

(A) Secondary Functions - It helps in the

Primary functions of money. It is also classified as.

- (a) Standard for Deferred Payments
- (b) Store of Value
- (c) Transfer of Value.

(a) Standard for Deferred Payments :-

In older times when barter system was in practice future or advance payment or credit was in the form of goods or commodities, which was very difficult at the time of settlement and in modern days we know that credit plays a major role in

that credit plays a major role in boosting the economy. Or rise of a business. In the case of money final settlement is easy and very convenient whether it is credit, advance etc.

(b) Store of value:-

In time of barter system the storage of value was not possible as no-body knew future, but in the modern days money can be stored in banks which can be used in future or the time of urgency. The feature of store of value of money leads to capital formation which leads to boost in economy.

(c) Transfer of value:-

In modern days transfer of value plays an important role in the process of economic development. We can purchase any goods or services in far of place and can give money in return to him or we can sell any property and purchase another property in another city without any problem. This function has boosted the economy. now days money also can be

transferred within in a click and that too without losing its value through bank transfers.

(iii) Contingent function:-

Money performs contingent functions besides primary and secondary functions such as:-

(a) Distribution of income:-

We know that the work of production has become very wide and complex, various sources contribute in the work of production, the 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, so we can say that money is the basis of distribution of income.

(b) Giving a general form to capital:-

Money has the maximum liquidity among all forms of capital, so the capital in the form of money used in any way, due to this form it can be withdrawn and introduced any time.

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(c) Basis of Credit: — Cheques, bank drafts, bills of exchange, hundis etc are commonly used for payments, but money is hidden in these credit instruments. These money does the work of credit.

(d) Maximum Satisfaction: — All the consumers wants to get maximum satisfaction, and to achieve it, he spends his income to meet various needs, in such a way that he can get equal marginal utility from every commodity. This is possible only through the use of money.

(iv) Other Functions: —

(a) Liquidity: — Money gives liquidity to assets due to this money can be used for any purpose.

(b) Bearer of option: — Money can be used in present and future, People store money to meet future needs and can spend in future according to their needs.

(c) Guarantee of Solvency:-

Every Person or firm has reserve Savings to repay back the loan or credit. If he is not able to repay back he is declared insolvent. That saving is in the form of money.