

Money & Banking

Topic :- Nature & Importance

of

Money

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Chapter - 2Nature and Importance of MoneyNature of Money:

- (i) Money serves as a means not an ends.
- (ii) Invention of money has made the exchange convenient.

Money serves as a means not an end:-
This line may be justified by the following example.

* Suppose a person sees with his eyes he thinks that the eyes alone sees every thing, but if he is in dark room then he realises his eyes sees every thing due to the light. Same in the case of money. The money does not have value of its own, it is the human desire to get money as it satisfies various needs.

"Pigou stated " Money is a garment draped around the body of economic life.

Importance of Money

According to Prof. Marshal:-

Money is a center around which economic science clusters"
Crowther said "Money is a basic invention among all the inventions by human beings."

Importance of Money in Modern economy

- (i) Basis of Production:— All the sources which are used in production are purchased using money.
- (ii) Basis of credit:— Deferred payment are made using money. If there is no money, the credit system will end.
- (iii) Capital formation:— Money helps in Capital formation.
- (iv) International co-operation:— International co-operation in the field of finance, commerce credit etc brings economic ~~de~~ development. The use of money also bring closeness among different countries of the world.
- (v) Unit of Account:— Money is a medium to measure the value of any commodity, thus it does the

function of a unit of book and account.

(vi) Mobility of capital:— Money is a liquid asset and can be carried to other places. If a person wants to settle at other place he can sell his property and convert it to money and carry to his desired place.

(vii) Mirror of national Progress:— we can conclude by the stability of currency of a country as developed, developing and under developed. So, money acts as a mirror of national progress.

(viii) Knowledge about per capita Income:— The level of Standard of living of citizens of a country is measured on the basis of their per capital income, and per capita income can be measured only in money.

(ix) Foundation of Capitalism:— It is the era of capitalism. Money is a vital need in such an economy. Financial institutions have taken birth only after the

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invention of Money. It has also led to the availability of Capital. So money is the basis of Capitalism.

(*) Freedom from evils of barter System:-

There were many difficulties in barter system such as lack of double coincidence of wants of wants difficulties in diversion of goods, etc., but money made all exchange easy.