



# CHAPTER 1: MONEY

MONEY – S.Y.B.COM

VAGHELA NAYAN

SDJ INTERNATIONAL COLLEGE



# DEFINITION

- Money has been defined differently by different economists.
  1. Descriptive Definitions
  2. Legal Definitions
  3. General Acceptability Definitions

# DEFINITIONS

## (1) Descriptive definitions

- “Anything that is generally acceptable as a means of exchange and that at the same time acts as a measure and store of value.” – Crowther in his book: An outline of money
- “Money may be defined as a means of valuation and of payment” – Coulborn
- “Money is anything that is widely used as a mean of payment and is generally acceptable in settlement of debts.” – Cole

# DEFINITIONS


## (2) Legal Definitions:

- “Anything which is defined by the state as money is money” – Professor Knap
- Professor Hartley believes that money should be legal tender.

# DEFINITIONS

## (3) General Acceptability Definitions:

- “Money is anything which is commonly used and generally accepted as a medium of exchange or as a standard of value.” – Kents
- Money is described as “anything which is widely accepted in payment of goods or in discharge of other kinds of business obligations,” by D.H. Robertson.
- “Money is anything that is generally accepted in payment of goods and services or in the repayment of debts.” – E. Mishkin



“MONEY IS ANYTHING THAT IS REGULARLY USED IN ECONOMIC TRANSACTIONS AND SERVES AS A MEDIUM OF EXCHANGE, A UNIT OF ACCOUNT AND A STORE OF VALUE.”

DEFINITION OF MONEY



# ORIGIN OF MONEY

Money has evolved through five different stages during history:

1. Commodity money
2. Metallic money
3. Paper money
4. Credit money
5. Electronic money

# ORIGINS OF MONEY

## 1. Commodity money:

- Commodity money has a value apart from its use of money.
- A large number of items such as cows, goats, sheep, rice, grains, etc were used
- However they lacked storage capability, durability transportability, divisibility, and homogeneity.



# ORIGINS OF MONEY

## 2. Metallic money:

- **Coinage:** gold and silver were used as coins, stamped by a competent authority.
- As time passed, transportation and storage of coins became inconvenient and dangerous

# ORIGINS OF MONEY

## 3. Paper Currency:

- Paper currency is made of paper and functions as a medium of exchange
- Initially paper currency carried a promise that it was convertible into a fixed quantity of precious metallic gold and silver
- This promise was eliminated in 1914 in England and in 1933 in America.
- **Fiat money**: this newspaper money which is considered legal tender because the government says it is money. It has no backing of gold, silver or government securities

# ORIGINS OF MONEY

## 4. Credit money or bank money:

- Bank money is the use of cheques as the medium of exchange.
- Cheques have made it possible an easier to make transactions for large amounts. They are easier to transport.
- They are safe and provide receipts
- Checks are not legal tender. They cannot be enforced in payments of debts

# ORIGINS OF MONEY

## 5. Electronic banking stage:

- This is a modern system of transferring funds using Electronic Communications.
- Payments are now made through magnetic strip cards such as bank debit cards, credit cards, telephone cards etc.
- This form of banking has reduced processing costs, lead times for payments and increasing flexibility.
- These are also not considered legal tender

# FUNCTIONS OF MONEY

## Primary Functions of Money

- Money as a medium of Exchange
- Money as a unit of account
- Money as a standard of deferred payments
- Money as a store of value

## Secondary Functions of Money

- Aid to specialization, production and trade
- Influence on income & consumption
- Money is an instrument of making loans
- Money as tool of monetary management
- Instrument of economic policy

## Contingent Functions of Money

- Distribution of national income
- Basis of credit system
- Measure of marginal productivity
- Liquidity of property

# PRIMARY FUNCTIONS OF MONEY

## 1. Money as a medium of Exchange

- Used to pay for goods and services
- Overcame double coincidence of barter system
- Introduced time efficiency of exchanging goods and services
- Encouraged division of labour. People are now specializing due to easier payment of services rendered..

## 2. Money as a unit of account

- Common measure of money.
- Used to compare goods in terms money

CONTINUE...

### 3. Money as a standard of deferred payments

- Money is useful in the purchasing goods on credit as it is easy to borrow-and lend

### 4. Money as a store of value

- Does not deteriorate and stores value

## SECONDARY FUNCTIONS OF MONEY

Money has the potential to influence an economy, by influencing interest rates, price levels, resources, etc.

1. Aid to specialization, production and trade
2. Influence on income & consumption
3. Money is an instrument of making loans
4. Money as tool of monetary management
5. Instrument of economic policy



# CONTINGENT FUNCTIONS OF MONEY

Contingent functions are derived from primary & secondary functions

- Distribution of national income
- Basis of credit system in banks
- Measure of marginal productivity
- Liquidity of property

# EVILS OF MONEY

1. It creates economic instability
2. It leads to over capitalization and over production
3. Money strengthens capitalism
4. Money causes trade cycle
5. Money creates inequality of income and wealth
6. Money is the main cause of corruption
7. Money just mobilizes the resources but does not creates it.



THANK YOU

