

# Chapter 3

## MONEY

### Meaning of Money

Money is anything that acts as a medium of exchange, measure of value, store of value and standard for deferred payments. In other words

*Money* is something which people generally accept in exchange for a good or a service.

Money performs four main functions:

*a medium of exchange* for buying goods and services;

*a unit of account* for placing a value on goods and services;

*a store of value* when saving;

*a standard for deferred payment* when calculating loans.

### Functions of Money :-

1) 'Money is matter of functions four, a medium, A measure, A standard and a store,

A. Medium of exchange:- It means that money acts as an intermediary for the goods and services in an exchange transaction.

B. Measure of value or unit of value:- Money serves as a measure of value in terms of unit of account. Unit of account means that the value of each good or service is measured in the monetary unit.

C. Standard of differed payments:- Money is functioning as deferred Payments because its price remains relatively stable.

D Store of value:- Storing of value means means store of purchasing power. It is convenient to store value in terms of money because storage of money does not need much space

### Barter system of exchange :-

Before evolution of money, goods were exchanged for goods, this system of exchange was known as barter system

Barter system of exchange is the system in which commodities are exchanged for commodities. This is also called commodity for commodity exchange economy.( C-C Economy)

Difficulties of Barter System of Exchange :-

- i. It requires double coincidence of wants which is a rare occurrence.
- ii. It lacks a common unit of exchange.
- iii. It lacks the system of future payments or deffered payments.
- iv. It lacks the system of storage of value

### **Problems or drawbacks of the barter system of exchange**

(i) Lack of double coincidence of wants : It was a major drawback of the barter system. It was very rare when the owner of some goods or services could find someone who wanted his goods or services and possessed that goods or services that the first person wanted. No exchange was possible, if the double coincidence of wants was not there.

(ii) Lack of common measure of value: In barter system, there was absence of a common unit of measurement in which the value of goods and services can be measured. In the absence of common unit, proper valuation was not possible.

(iii) Lack of standard for deferred payments: Deferred payment means future payments. In barter system, it was difficult to return value in future in terms of goods of same quantity and quality. Therefore, future , payments regarding interest and loans became difficult.

(iv) Lack of store of value :Due to absence of money in barter system, wealth was stored in terms of goods. Storing of goods carried some problems like cost of storage, loss of value, transfer from one place to other, etc. So, in case of commodities, it was difficult for people to store their purchasing power.

(v) Lack of divisibility: In commodity exchange, difficulty of dividing the commodity has been arised. e.g. if car is to be exchanged for a scooter, then car cannot be divided. Similarly, animals cannot be divided into smaller units.

#### **(vi) Impossibility of Subdivision of Goods:**

Another problem faced under the barter system for exchange of goods was impossibility of subdivision of goods without loss of their value. For instance, if a person has a cow and wants to have 5 kg of wheat, obviously, it is too costly to give one cow for 5 kg of wheat he requires. Then, to do this transaction cow has to be divided. But cow cannot be divided or cut into pieces because cow will lose much of its value if it is divided. Thus, impossibility of division of goods for the purpose of exchange posed a great difficulty and obstructed the growth of trade.

### **MO NEY SUPPLY**

Money Supply refers to total volume of money held by public at a particular point of time in an economy.

In India RBI uses four alternative measures of money supply called as M1, M2, M3, M4.

M1=currency held by public + Demand deposits + other deposits with Reserve Bank of India.

$$M_1 = C + DD + OD$$

C = Currency and coins with the public

DD = Demand deposits of the public with the banks

OD = Other deposits

### **HIGH POWERED MONEY**

It is the monetary base of the country

**It includes:** sum of all the currency in circulation with the people of the country(In the form of currency notes and coins) + vault cash of commercial bank + deposits held by government and commercial bank with the RBI .