An Approach on the Money Meaning and Functions

Mr. Yelahanka Lokesh
Assistant Professor, Department of Commerce And Economics, Presidency University, Bangalore, India,
Email Id-lokesh.yr@presidencyuniversity.in

ABSTRACT:

In contemporary economies, money plays a crucial role as a medium of exchange, unit of account, store of value, benchmark for postponed payments, measure of worth, and enabler of global trade. An overview of the meaning and purposes of money is given in this chapter, emphasizing their importance in both economic theory and practice. The idea of money includes all of its uses, beginning with its use as a means of exchange. Barter systems are simplified by the use of money, enabling smooth transactions and boosting economic activity. It offers a widely accepted means of exchanging goods and services, fostering economic development and facilitating trade.

KEYWORDS:

Commodity Money, Commodities Services, Demand Deposits, Gold Silver, Legal Tender.

I. INTRODUCTION

Modern society uses money frequently, and it is essential to the functioning of the economic system. A common system in ancient times was barter, which was fraught with too many problems. Every community considered a new kind of commerce to be necessary as a result. This led to the invention of a uniform means of exchange, which is what modern money is. But the creation of money did not happen suddenly. It took several millennia for it to take on its current form. Money itself must be a limited resource. From cigarettes to wholly artificial money like banknotes, many things have been used as money, including naturally rare precious metals, conch shells, and rare precious metals. The first money to appear was commodity money. The thing that is utilised as money in a commodity money system has intrinsic worth. It typically serves as a medium of exchange first since it is used to streamline transactions in a barter system. Due to the ease with which owners of perishable products may easily transform them into durable money, it quickly starts to act as a store of value.

Commodity money has also been employed as a unit of account in contemporary economies. Currency notes that are backed by gold are a typical type of commodity money. Various goods had been used as currency in the past. Cattle, leather and hides, bear, wine, maize, tobacco, salt, rice, and other animals were the most frequently used commodities. Bread was utilised as an early form of currency in mediaeval Iraq. Paul Rinsing compiled a list of about 172 items and materials that have historically been used as money in his book Primitive Money [1], [2]. Metal money has replaced commodity money as a result of economic development. Money was made using metals such gold, silver, copper, iron, lead, and bronze. Metal dust, nuggets, rings, bracelets, and other various items have all been used as commodity money for thousands of years, including gold and silver. Around 560 BC, the Lydian's finally started minting gold and silver coins. Over time, gold and silver were accepted as the only true forms of money. Then followed the age of chapter money, which includes coins, bank deposits, and paper money; this is the contemporary monetary system, which emerged during the Great Depression of the 1930s.

Money began as commodity money and ended as a system of recording transactions and bringing every act of purchase and sale, borrowing and lending, working and producing at any time, into some degree of relation with every other such act, as stated by G.L.S. Shackle. The Latin term Moneta, which derives from the temple of Hera the Moneta, where the Roman currency originated, is where the word money first appeared. Heraa member of the Olympian pantheon in classical Greek mythology, was Zeus's wife and sister. Hera Money taps is the Greek word for alone Hera. Hera was once chastised by Zeus, who hung her between the ground and the sky with a golden chain. Hera was referred to as miners or money, which meaning lonely, because she was isolated between the sky and the earth and was bound with gold. This is where the term money originates. Hephaestus assisted Hera in releasing herself from the golden chain. According to legend, the pieces of this golden chain that fell from the sky and became human currency are the source of all the gold that has been discovered on earth, which is roughly a cube 20 meters in size.

Gold was only used in ancient Greek temples, graves, and jeweler, maybe because of this legend. Golden coins were first minted in ancient Greece by the Greek monarch Philip II of Macedon somewhere around 390 BC. Croesus, a king of Lydia, struck the first golden coins perhaps around 560 BC. Because copper and iron were potent elements used to build weapons, the original Greek coins were first made of copper and then of iron. Aristotle claims that Theydon, king of Argos, dedicated some of the surviving iron coins which were actually iron sticks to the temple of Hera after switching the currency from iron to silver approximately 700 BC. The silver coins were struck by King Theydon at Aegina in the temple of the goddess of war and learning, Athena the Aphasia, and were inscribed with a Choline, a design that is still used today as a symbol of capitalism. The earliest kind of currency that wasn't backed by a tangible item was choline coins. Until the Peloponnesian War, when the Athenian Drachma replaced them, they were generally acknowledged and utilised as the global unit of commerce. Other stories claim that Architomies, the Lydian's or the Nations, Lycos, the son of Pinion II and grandfather of the Lucians, and Demo dike of Kym, the wife of Midas, were the creators of money.

System Barter

A barter system is a trading or exchange system in which one good or service is swapped for another good or service. Prior to the development of money, this approach was widely used. A producer of rice can exchange rice for fabric from a manufacturer of cloth to purchase cloth. This system predates all human civilizations together. The barter system of trading began because man needed goods that he could not produce on his own. He began creating the goods and services he is capable of generating and buying the goods he is unable to make to the highest standard from others to satisfy his needs. As a result, in a barter, one party exchanges products for another party's goods.The barter system faces numerous challenges, which are listed below:

1. The lack of two wants that coincide. The absence of two demands that coincide is the most fundamental issue with the barter system.
2. Lack of a standard unit of measurement. There was no standard unit for determining the relative values of various commodities and services. As a result, the market's value for any commodity is not fixed and constant [3], [4].
3. Lack of a store of value. There is no reliable way to conserve money or the collective purchasing power. Wealth can be kept in the form of particular commodities.
4. The value of the goods being stored could diminish over time owing to damage.Additionally, the process of storing items is fairly costly.
5. 4. Future payment issue. One of the drawbacks of a barter system was the lack of a suitable unit in terms of which deferred payments for any future contracts could be made. Contracts pertaining to payments in the future are a key component of an exchange economy.

II. DISCUSSION

Any marketable product or token that a society uses as a store of value, a means of exchange, or a unit of account is referred to as money. Some or all of these requirements can be satisfied by financial things. Since demands develop inevitably, civilizations automatically produce money where none already exists. In other situations, a centralized authority creates a unit of currency; paper money-based modern cultures are more likely to experience this. The determination of income and employment are significantly influenced by money. Different economists have defined money in different ways. It is described in terms of its functions by F.A. Walker. 'General acceptability' was defined by Cole, Keynes, Seligman, and Robertson. Robertson asserts that money is any item that is commonly accepted as payment for commodities or as payment for other types of business obligations. Prof. Crothers has provided a pretty thorough explanation of what money is. Anything that is generally acceptable as a means of exchange and simultaneously acts as a measure and store of value, was how he described money[5], [6].

Since it is a form of trade that is commonly used in transactions, money is a fundamental notion in economics. It performs a number of crucial tasks that are essential to the operation of contemporary economies. The meaning and purposes of money include its use as a standard for deferred payments, a unit of account, a store of value, and a medium of trade. First and foremost, money acts as a means of exchange, making it easier to acquire and sell commodities and services. It makes transactions easier and more effective by doing away with the necessity for barter, in which one good is directly traded for another. Money offers a well-recognized medium that promotes economic expansion and allows for economic activities. Second, money serves as an accounting unit, giving a standard way to assess the worth of commodities and services. It creates a benchmark for determining and contrasting prices, wages, and other economic values. Money is used as a unit of account so that people and businesses may evaluate the relative worth of various things and make wise economic decisions.

Money's role as a store of value is another crucial one. Money enables people and organizations to accumulate wealth and purchasing power over time. It helps people save money and build wealth, ensuring their financial security and allowing them to put off consumption for later. Money is a trustworthy reservoir of wealth because of its enduring qualities and consistency as a store of value. Money also serves as a standard of deferred payment, enabling the settlement of transactions and contractual obligations over time. By offering a secure means of future payments, it makes credit agreements, loans, and financial transactions easier to complete. Economic activity and financial intermediation are supported by money's role as a standard of postponed payment. Money also acts as a unit of measurement, making it possible to compare and evaluate the value of different items, services, assets, and liabilities. It offers a uniform unit that makes it possible to value, price, and assess economic activities. The use of money as a unit of value facilitates resource allocation, investment selection, and economic research.In conclusion, the significance and purposes of money are essential to economic systems. Money facilitates economic transactions, serves as a unit of account, a store of value, and a benchmark for postponed payments. It also offers a common scale for measuring economic values, promotes wealth building, and supports credit agreements. In order to navigate economic systems and make wise economic decisions, policymakers, economists, and citizens must have a solid understanding of what money means and does.

1. Purpose of Money

The following categories can be used to discuss the key roles that money plays:

- **i.** The use of money as a medium of exchange is one of its primary functions. It makes buying and selling products easier. Money serves as a common and consistent measure of value
- **ii.** Money is used to measure the worth of various goods. Nowadays, transactions are quick and easy because to money. Money is used as an accounting unit as a result. For instance, the rupee is used as the unit of account in India.

2. Secondary Purposes

- **i.** Money also acts as a value store. It implies that people can maintain their financial prosperity. To put it another way, owning money also means holding purchasing power. Money can be used at any time to make purchases since it is a relatively liquid asset rapid conversion of assets into cash.

ii. Deferred payment standards. Future payments for any transaction can be made in terms of money under the deferred payment standard. It indicates that payment may be dispersed over time. A person who borrows a specific amount of money now may pay it back in the future, and the payment amount is fixed. Money aids in the transfer of value from one person to another

iii. For instance, when we buy something from a seller, we really transfer value to the seller by paying them with money that is equal to the good's cost.

3. Alternate Functions

i. This refers to the use of financial resources to support key economic decisions made by groups like consumers, producers, etc.

ii. Income distribution Money facilitates the division of national income. In other words, the components of production provide their services to the manufacturing process and are compensated financially for doing so rather than with commodities and services.

iii. Utility maximization a logical buyer or producer will always want to maximize utility. For instance, a consumer can equalize his overall utility by balancing the marginal utility ratios of various commodities with the money-based price ratios of those same good [7], [8]s.

iv. The credit system's foundation in today's economy, credit is significant. The credit system is crucial to commercial and corporate activities. In the absence of funds, none of the credit instruments, such as checks and bills of exchange, may be employed.

Assurance of Money

The total amount of money in circulation in an economy is referred to as the money supply. It is a stock that the general public owns at all times. The monetary authorities, banks, and general public all contribute to determining the money supply. The Reserve Bank of India states that public currency and deposit money are both included in the stock of money. All coins and paper money issued by the state and banks are considered currency. The four alternative money supply measures have been included by RBI. The numbering is M1, M2, M3, and M4. M1 is the total amount of money that the public, banks' net demand deposits, and other deposits with the RBI hold. M1 + savings deposits at the post office equals M2, while M1 + net time deposits at banks equals M3. M4 is equal to M3 plus all deposits, including post office savings. In addition to public and other deposits held by the RBI, net demand deposits also comprise deposits held by the government, banks, and other institutions. Ordinary currency and sophisticated currency. Money come in two varieties: regular money (M) and powerful money (H). Demand deposits added to currency equals ordinary money. The currency issued by the RBI and the Indian government, and held by the general population and banks, is referred to as high powered money (H). RBI refers to it as reserve money.

H is the total amount of money that the people, banks, and other institutions have deposited with the RBI. Demand deposits in ordinary money and cash reserves in high powered money are what make them different from one another. Demand deposits are created by banks and are regarded as money on par with currency. Banks must keep a cash reserve, a portion of high-powered money that is produced solely by the monetary authority and not by banks, in order to create demand deposits. Demand deposits are many cash reserves, which are a component of H. This provides H the property of high POW redness, or the ability to act as a foundation for several demand deposit formations. For this reason, base money is another name for high powered money. H therefore dominates other factors in influencing the money supply. Thus, it is evident that coins, paper money, and demand deposits, or money issued by commercial banks as credit, make up the majority of the money supply.

The Parts of Money

Money can be categorized based on its nature, legal status, or shape. Metal Money It is composed of several metals, including gold, silver, copper, lead, nickel, and others. Three groups can be made out of metallic money. Standard money, token money, and subsidiary money are these. Full-bodied money is another name for standard currency. Metals with well-defined weights and purity, such as gold or silver, are used to make standard coins. Their inherent worth is always equal to their face value. Smaller payments are made using token currency. It is constructed of subpar metals like copper, nickel, etc. It is currency with a higher face value than actual value. Coins are a form of symbolic currency used to make smaller payments. Standard money is unrestricted legal tender in contrast to token money, which has a limited legal tender. Coins or subsidiary currency are used to make smaller payments, much as token currency. These are low-value coins that are often made of aluminum. They also have a limited legal tender value.

Currency notes are the type of paper money. Paper money in India refers to all paper money of all denominations issued by the nation's central bank. In 1806, Bank of Bengal became the first bank in India to print money. Representative gold and silver reserves serve as the sole security for the printed money. Paper money that can be changed into common coins is known as convertible paper money. In transferable paper money cannot be changed into common coins or other precious metals. Today, practically all nations use an unchangeable paper money system. The governor's guarantee in Indian rupee simply implies that only notes and coins with an equivalent face value can be used to exchange the currency. The issuing authority does not maintain metallic reserves to support the amount of money printed while issuing this sort of currency. A type of inconvertible currency is fiat money. When there is a crisis or an emergency, it is released. Because the government has declared it to be legal tender, it is fiat.

It's a rather recent invention. A minimally valuable new money object is produced by a central authority. In this instance, the only reason the general populace has faith in the currency is because the governing body forbids its rejection. There is little a central authority can do to stop society from adopting other money objects when the public loses confidence in fiat money. By enforcing legal tender rules, formerly known as forced tender, whereby debtors are legally released from the debt if the pay it off with the government's money, the government grants the money itself value. The Latin word fiat, which means let it be done, or edict, is used to describe this process. The idea behind intrinsic value, in general, is that a product's value is inherent inside it rather than reliant on the buyer's perspective. The brand-new, global currency, the Euro, is an illustration of fiat money. With its inception, several of the oldest currencies in use today were replaced. Money nearby: Money is divided into two categories based on liquidity: actual money and near money. Although near money is not a totally liquid asset, actual money may be turned into cash instantly and without losing any value. Treasury bills, bonds, debentures, and other forms of close money are examples.

Legal Tender Money is currency that is recognized as a form of exchange. It is money that is authorized by law. No one can reject it as a medium of exchange. There are two types of legal tender money: restricted legal tender and unlimited legal tender. People cannot be compelled to accept limited legal tender money past a certain point. For instance, in India, coins with face values of 1, 2, 5, 10, 20, and 25 paisa are legal tender up to a total of 25 rupees. It indicates that in India, one cannot refuse to accept coins totaling more than Rs. 25, but one might refuse to accept coins over this amount. Legal currency that is accepted without restriction is money. The one-rupee coin, the 50-pause coin, and all banknotes are therefore limitless legal tender. This money must be accepted by everyone. Additional Funds: It is money that has no legal backing but is yet widely accepted by society. No one may be coerced into accepting such payment. The decision to accept or reject is yours. Credit instruments, such as checks, dollars, and bills of exchange, are examples of optional money.

The form of money that is used as a medium of exchange in a nation is known as money proper or actual money. The premise for deferred payments is also this. With the aid of this cash, goods and services are bought and sold on the market. Bonham refers to them as units of money. Keynes distinguished between two types of actual money: commodity money and representative money. Commodity money is treated as currency and is made of certain metals or commodities. It is often referred to as standard money or full-bodied money. It serves as a store of value in addition to being a means of exchange. Cheap metallic coins or convertible paper notes are the two main forms of representative money. Since it has no intrinsic value, purchasing power cannot be stored in this situation. Anytime one wants, one can change representative money into commodity money. Money of Accounts: This type of money is used to keep track of values and manage accounts. The definition of money of account, according to Keynes, is that in which debts, prices, and general purchasing power are expressed. Dollars are used as the unit of account in America and India, respectively. Because of its static nature, it does not alter throughout time.

Meaning and Purpose of Money Application

Modern economies are centered on the idea of money, which performs a number of crucial tasks. Analyzing economic systems and creating efficient monetary policies are made easier by having a clear understanding of what money is and what it does. The following are some important uses for money and its purposes. Money serves as a medium of exchange, making it easier for people to buy and sell products and services. It makes transactions more efficient by doing away with the necessity for barter, in which one good is directly traded for another. The use of money as a medium of exchange is essential to everyday economic activity and makes it possible for people and businesses to conduct transactions without difficulty. Money is used as the unit of account because it offers a uniform scale for determining and contrasting the relative prices of various goods and services. It permits the uniform pricing, value, and documentation of economic transactions. Making decisions based on the relative value of different commodities and services is made possible for people and organizations through the use of money as a unit of account. Money serves as a store of value, enabling people and companies to accumulate wealth for use in the future.

In contrast to some perishable or volatile items, money retains its worth over time. People can postpone consumption and make future purchases by storing value in the form of money. Money can be used as a store of value to facilitate wealth creation and financial planning [9], [10]. Money is used as a standard of deferred payment, allowing people and businesses to establish credit agreements and carry out obligations over time. Contracts, loans, and other financial instruments frequently have monetary values, which makes borrowing and lending easier. The management of financial commitments and the effective operation of the credit markets are made possible by the use of money as a standard of deferred payment. Money serves as a measure of value because it offers a quantitative foundation for determining the worth of commodities, services, assets, and liabilities. It allows for the monetary value comparison of various goods, facilitating resource allocation, investment analysis, and economic decision-making.

Assessing economic performance and the relative worth of various economic activities is made easier by using money as a measure of value. The importance of money as a medium of exchange in global trade cannot be overstated. Cross-border transactions are made easier by the usage of currencies, which allow for the exchange of goods and services across various nations. Globalization, economic integration, and the expansion of global markets are all supported by the use of money as a medium of exchange in international trade. Policymakers, economists, and businesses can analyse economic systems, create monetary policies, and make decisions based on their understanding of the meaning and functions of money. Stakeholders can better understand financial market dynamics, evaluate economic performance, and adopt policies that promote economic stability, growth, and development by being aware of the numerous uses of money.

Benefits and the Meaning and Purpose of Money

Money's meaning and purposes provide a number of benefits that help economies run smoothly and make transactions more convenient. The following are some of the benefits of money and its uses:

Efficiency: Because it is a globally recognized form of trade, money increases the effectiveness of economic transactions. It streamlines the purchasing and selling process and does away with the need for complicated barter systems where items are directly swapped for other goods. Transactions may happen more quickly with money, which lowers transaction costs and stimulates the economy.

Flexibility: When it comes to economic transactions, money offers a high level of flexibility. It can be broken down into smaller pieces, allowing for transactions of different sizes. This division makes it possible to price items precisely and to exchange commodities and services at various price points. Money's adaptability increases market liquidity and encourages the effective distribution of resources.

Stability: The unit of account that money offers is stable and standardized, making it possible to value and price products and services consistently. It lessens the ambiguity that comes with barter systems, where the relative worth of products can be arbitrary and fluctuating. Money is stable, which makes it easier to compare different economic activity, plan investments, and make economic decisions.

III. CONCLUSION

The ability of financial organizations to offer services like lending, borrowing, and investment management is made possible by money and the purposes it serves. Financial transactions between savers and borrowers are made possible by the use of money as a standard of postponed payment. Through the redirection of savings into profitable investments, this intermediation supports economic growth.Since money is a commonly used form of exchange, it inspires confidence in economic actors. It is accepted because people think it will hold its value and can be used to buy things and get services when they need them. Economic transactions, investment, and economic progress are facilitated by trust and confidence in money.

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