

# Fundamentals of Economics – Money & its function

## Agenda

- Definition of Money
- Traditional and empiricists approach of money
- Near money
- Difference between pure money and near money
- Functions of money
- Barter system

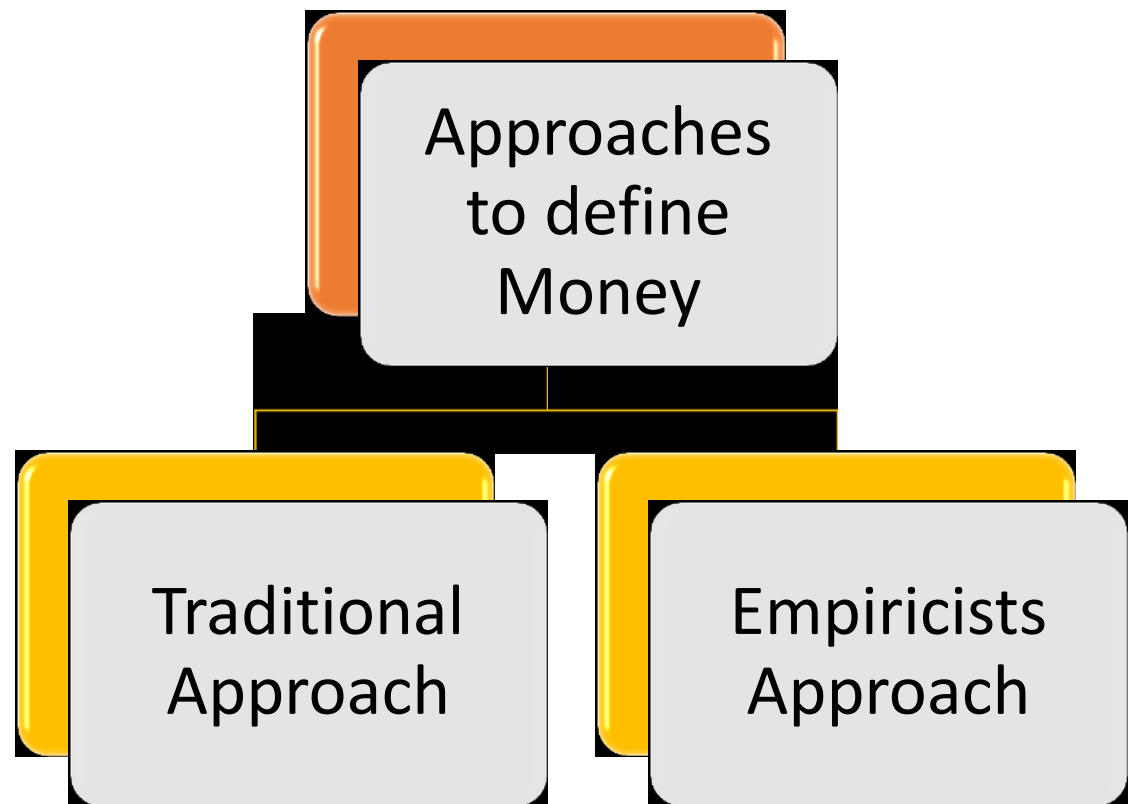
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# Money

Money is anything that is generally accepted for payment of goods and services, or accepted in settlement of debt.



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# Traditional Approach

“Anything is money which functions generally as a medium of exchange”

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## Criteria

Its general acceptability

Its functional aspect

## Empiricists approach

- Complex phenomenon
- *Money = Pure Money + Near Money*

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## Criteria

Stability of demand function

High-degree of substitutability

Feasibility of measuring statistical variations in real economic factors

# Near-money

- Covers all financial media that are used in the exchange transactions of the modern economic system.
- Near-money= currencies + demand deposits of commercial Banks + Securities (Bonds, debentures, time deposits, equity shares etc.)

## TYPES OF NEAR-MONEY

Saving deposits with banks

Bills of exchange

Treasury bills

Travelers' cheques

Shares of investment trust

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# Money



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# Near-Money

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# Difference between Money and Near-money

Pure money	Near money
Coins, currency notes and demand deposits of banks	Financial assets like time deposits, bills of exchange, government bonds, shares etc.
100% liquidity	Lacks 100% liquidity characteristics
Not an income earning asset	Income earning asset
Functions as a unit of account and common measure of value	It is not fully functioning as a unit of account and common measure of value

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# Functions of Money

Money as a medium of exchange

Money as a unit of account

Money as a standard of deferred payment

Money as a store of value

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“Money is a measure of four functions,  
A medium, a measure, a standard and a store.”

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# 1. Money as a medium of exchange

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# Money as a medium of exchange

Means of payment

Good circulating medium

It possess attributes like

- uniformity,
- durability,
- portability,
- general acceptability,
- divisibility.

It obviates the difficulties of barter system

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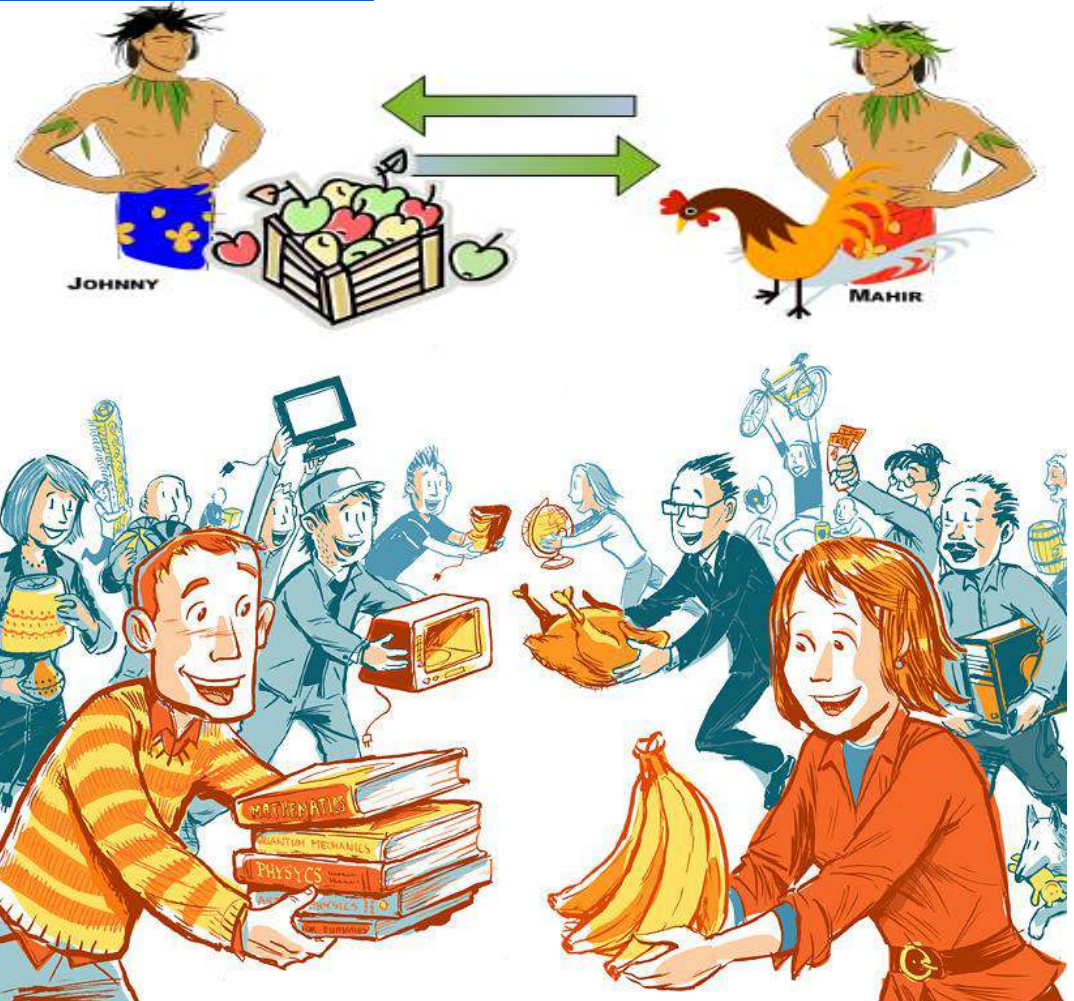


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# Barter system

- No use of money
- Goods are exchanged against goods
- Difficulties like
  - Want of coincidence
  - Want of means of sub-division
  - Lack of standard of deferred payment
  - Lack of efficient store of value

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## 2. Money as a unit of account

Means of calculating the relative prices of goods and services.

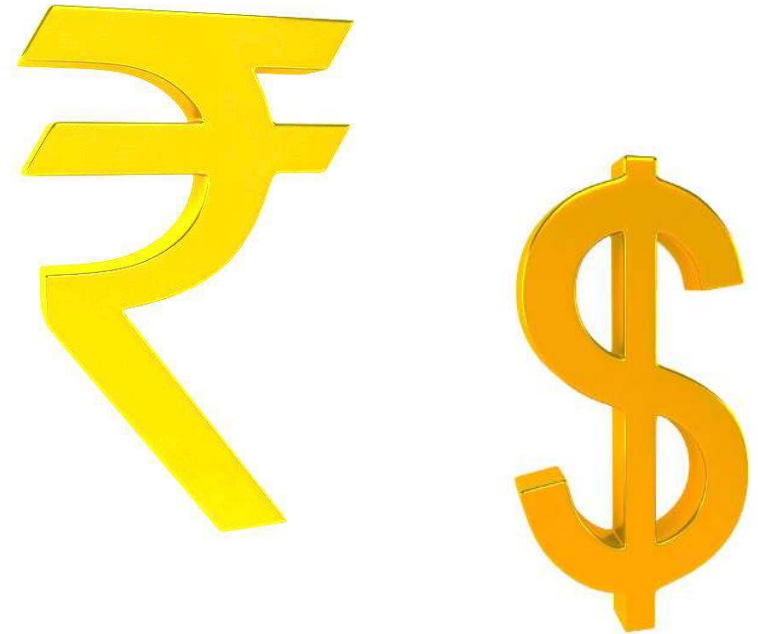
Provides basis for

- Keeping accounts,
- Calculating profit and loss,
- Costing etc.

Indian rupee = India

US Dollar = USA

Euro = European Union



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## How money as a unit of account is differed from money as a medium of exchange?

As a medium of exchange, money functions as something real-coin, currency note, credit entry in bank account.

unit of account is

- ✓ Just as Mode of expression
- ✓ Just as measure.

Money as a unit of account is abstract, medium of exchange is concrete.

e.g. The rupee, as a notion, has no physical existence but the rupee note is physical entity.

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

An agreed unit of measure that enables people to contract for future payments and receipts.

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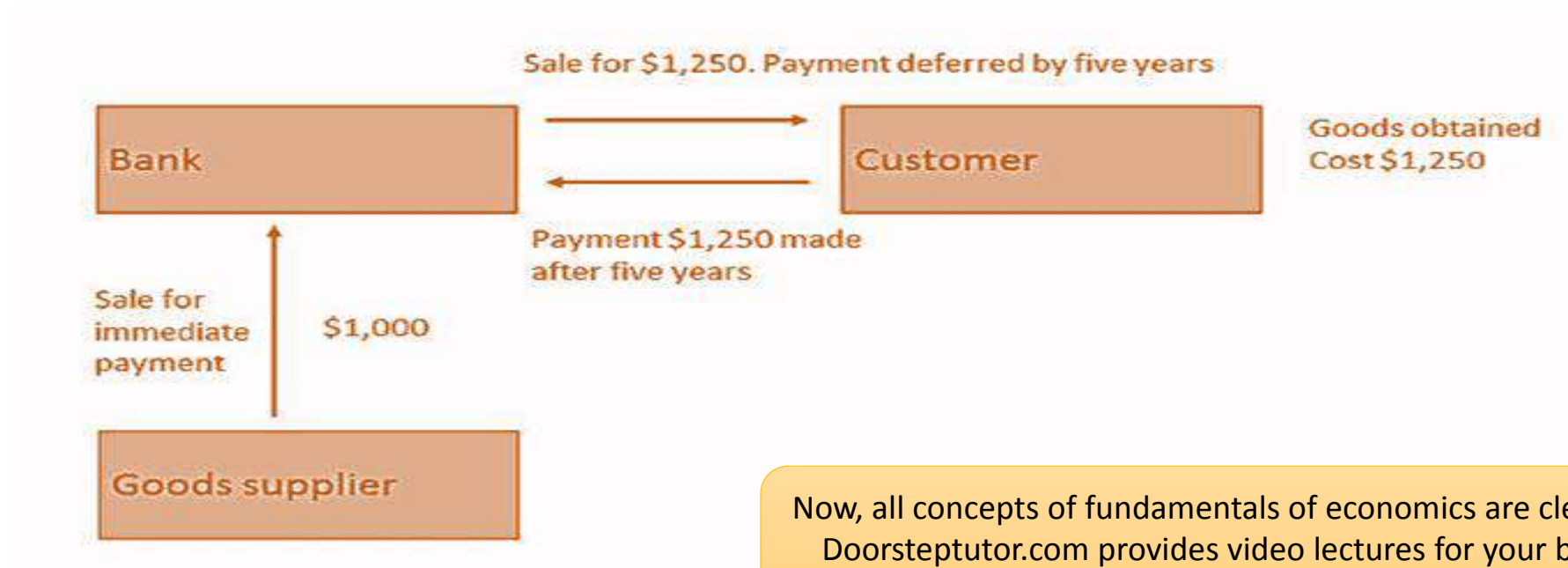
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# Money as a standard of deferred payments



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# 4. Money as a store of value

Anything that retains its purchasing power over time.



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