

VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

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Teacher name – Ajay Kumar Sharma

Money and Banking

Q23. State the functions of money.

Ans. Money is often defined in terms of the three functions or services that it provides. Money serves as a medium of exchange, as a store of value, and as a unit of account. It is a current medium of exchange in the form of coins and banknotes; coins and banknotes collectively. According to Prof. Walker, 'Money is as money does.'

The main functions of money are as follows:-

i. Money as the Medium of Exchange - Medium of exchange is the basic or primary function of money. People exchange goods and services through the medium of money. Money acts as a medium of exchange or as a medium of payments. Money by itself has no utility. It is only an intermediary.

ii. Money as a Unit of Account or Measure of Value - Money serves as a unit of account or a measure of value. Money is the measuring rod, i.e., it is the units in terms of which the values of other goods and services are measured in money terms and expressed accordingly. Different goods produced in the country are measured in different units like cloth in metres, milk in litres and sugar in kilograms.

iii. Money as the Standard of Deferred Payments - Deferred payments are payments which are made some time in the future. Debts are usually expressed in terms of the money of account. Loans are taken and repaid in terms of money.

iv. Money as a Store of Value - Wealth can be stored in terms of money for future. It serves as a store value of goods in liquid form. By spending it, we can get any commodity in future. Keynes places great emphasis on this function of money. Holding money is equivalent to keeping a reserve of liquid assets because it can be easily converted into other things.

v. Liquidity of Money - Money is perfectly liquid. Liquidity means convertibility into cash. Thus, the ability to convert an asset into money quickly and without loss of value is called liquidity of asset. Modern economists are laying stress on liquidity of money.

Q24. How does money overcome the problems of barter system?

Ans. Money can overcome the problems of barter system in following ways:

- i. Money as medium of exchange solves the barter's problem of lack of double coincidence of wants as money has separated the acts of sale and purchase.
- ii. Money as measure or unit of value or a unit of account solves the barter's problem of absence of common measure of value. Money serves as a unit of value or unit of account and acts as a yardstick to measure exchange value of all commodities.
- iii. Money as store of value solves the barter's problem of difficulty in storing wealth. It generalised purchasing power.
- iv. Money as standard of deferred payments helps to solve the barter problem of lack of standard of deferred payment. Again, it helps to make contracts which involve future payments.
- v. The use of money meant that people could sell their surplus of goods in exchange for money and use the money earned to buy their needs. During ancient wartime, currency was created as it was just too difficult for soldiers to carry around chickens and beans around to swap for what they needed.
- vi. Indivisibility of goods was a major problem. Under barter, a serious problem of indivisibility of certain articles was arisen. Some articles were impossible to divide into small parts. So, that one of the trading party was compelled to give his indivisible item in full in exchange for the other's product.
- vii. Difficulty in transfer of wealth was also main problem during that time. Under barter, the difficulty of transferring of a person's wealth arises.

When he intend to shift his wealth like house, property, car from one place to another, because it is almost impossible to find a person in another place, who can exchange his property or wealth.