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Sub - Economics

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Class - B.A-I

Role of money in economy system

Money is a fundamental invention of mankind. With this invention of money, various difficulties are ruled out. Money plays an inevitable role in any kind of economy. Every Economy needs money as a convenient medium of exchange. Money means the currency of a nation and it may include coins, paper notes, cheques, bills of exchange etc.

* Function of money in the modern Economic system -

Let's discussed some of the important functions played by money in the modern economic system: -

□ Difficulties of Barter:

There are several inconveniences of barter systems. Let's discuss a few -

1) Absence of double coincidence of wants:-
barter system can only be operated if there is a double coincidence of want.

This can be illustrated through an example:

for example - if a person sells rice and another person sells pulse then both must want to each other's products. if the seller of pulses want to vegetables

then exchange cannot take place. Thus

barter poses a lot of inconvenience especially on a day to day basis. Thus money

act as medium and overcome such difficulties. The buyers and ^{the} sellers can now

Buy and sell a product using this medium.

2) No. Standard of measurement :- There is no specific measurement system used in barter. In other words, it provides no measure of value and thus, the system remains inefficient as people can not determine the amount they should buy or sell in exchange of for their products. Thus, it does not provide a way to compare the relative values of two products.

3) Difficulty of storage :- You can store money and use it at a later point in time. But in the absence of a medium, people have to store their wealth in the form of commodities. While some commodities can be stored

over a period, perishable items can not be stored and thus they lose their value.

□ Functions of money in economy —

1) The medium of Exchange —

The primary function of money is that it act as medium of exchange. It is an efficient way to remove inconveniences of barter system. It is freely accepted for purchase or sale of any goods. It eliminates double coincidence of wants and can be directly exchanged in the market.

2) A Measure of value: —

It is an instrument — that acts as a measure of value. Money can be used as a standard of