

Teacher - Ravi Shankar Roy Sub - Economics

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Value of money

The value of money, then, is the quantity of goods in general that will be exchanged for one unit of money. The value of money is its purchasing power, i.e., the quantity of goods and services it can purchase. What money can buy depends on the level of prices.

When the price level rises, a unit of money can purchase less goods than before. Money is then said to have depreciated. Conversely, a fall in prices signifies that a unit of money can buy more than before. Money is then said to

appreciate. The "general level of price" and the value of money are thus the same thing, from two opposite angles. When the prices rise, the value of money falls and vice-versa.

In other words, the value of money and the general price level are inversely proportional to each other.

Violent changes in the value of money (or, the price level) disturb economic life and do great harm. We must, therefore, carefully study the factors which determine the value of money.

Suppose we have found by

Measurement that a room is four
meter long. Measuring it again next day
we are surprised to see that
the same is five metre length. How
could the room stretch itself by a
metre overnight? Was some partition
knocked out or an extension added during
during the night? or, is it that
our meters measure has grown -
shorter by 2 centimeters? Which out
of these is the correct answer?
In the same way if a rupee
can buy one kg of wheat today
but purchaser only half a kg tomorrow
we are greatly perplexed.