

Subject: Economics
Class: 10th

Tender Heart High School

classmate

Date
Page

7/10/2024
1

Teacher: Lokesh Arora

Ch: 6: - Meaning and Functions of Money

Good Morning students,

This lesson is of Class 10th for the subject of Economics. The topic for today's lesson is 'features and functions of money' which is covered in Chapter 6 'Meaning and functions of Money' of your book 'Economics'.

This lesson is being submitted to you on 7.10.2024 and the voice is of Lokesh Arora.

All the students now please open page number 151 of your book and listen very carefully.

Students in the previous lesson we had discussed evolution of money. Today we will discuss features and functions of Money.

First of all we will discuss definitions of Money.

(1) Legal Definition of Money:-

According to this type of definition, 'Money is what the law says is money.' In other words, anything which the government declares as money is money. It is issued by central bank of the country. It is also known as 'Fiat Money' because it has the order of the Government.

Chapter - 6

In India, currency notes and coins are treated as money. These are also known as 'Legal Tender Money' because no one can refuse to accept it.

2. Function Definition of Money:-

According to this definition, money is defined on the basis of functions it performs.

"Money is anything that is generally acceptable as a means of exchange and at the same time acts as a measure of value and store of value".

Money can also be defined as, "anything which is generally accepted as a medium of exchange, in payment of debt and as payment of goods and services".

Students now we will discuss features of Money:

1. General Acceptability:- For a thing to serve as money, it must possess the quality of general acceptability. It should be accepted by people freely in exchange for goods and services.
2. Divisibility:- Money should be easily divisible into smaller parts and

thus must facilitate small transactions.

3. Durability! - Money also possesses the characteristic of durability. Currency notes and coins are being used repeatedly and shall continue to do so for years together.
4. Cognisability! - Money must be easily recognised. It should have certain distinct marks so as to avoid mistake by receiving person.
5. Portability! - Money must be portable one so that it can be transferred easily from one place to another.
6. Stability! - Money should be stable in value because it has to serve as a measure of value.

Students now we will discuss the functions of money.

Money plays an important role in modern life. No economy of world can work smoothly in its absence. Various functions of money have been classified into three broad categories.

1. Primary Functions! - These are the

(3)

basic functions of money. These are common to all countries. Primary functions of money are as follows:

(i) Medium of Exchange:-

Medium of exchange is considered to be the first and most important function of money. As money has quality of general acceptability therefore, all the exchanges in an economy take place in terms of money.

In this regard, Behnam has rightly said, "A person will accept money in payment, not because he necessarily wants money for his own sake but because he knows that other people in turn will accept it from him in return for the goods and services which he himself requires."

Money is used in buying and selling all kinds of goods and services.

(ii) Measure of Value:-

The second fundamental function of money is that it acts as a common measure of value. Just as we use kilogram in measuring weight of a commodity and metre in measuring length of a commodity, similarly, for measuring value of a

Commodity we take money as a unit of account.

Money serves as a unit of measurement in terms of which the values of all the goods and services can be expressed and measured. When we express the value of a commodity in terms of money, it is known as price.

2. Secondary Functions :-

In this category, we include those functions of money which are derived from the primary functions.

The followings are the secondary functions of money :-

(i) Standard of Deferred Payments :-

Under barter system, credit transactions were not possible because the seller was not sure of getting the same kind of goods after a certain period. Now with the introduction of money, this difficulty has been removed completely. Now, the seller of goods will get the same value after a certain time period. When money is generally accepted as a medium of exchange, it naturally becomes the unit in terms of which deferred or future payments are expressed. This function is derived from

the medium of exchange function. Here again, money is used as medium of exchange, but this time payment is spread over a period of time.

(2) Store of Value:-

Money also serves as store of value. People can now keep their wealth in the form of money.

Under barter system, storing of wealth was possible only in terms of commodities which has its defects like perishable nature of some goods, cost of storage etc. But storing of value in the form of money has solved all these difficulties.

Money allows us to store ~~surplus~~ surplus purchasing ^{power} which can be used at any time in future, to purchase goods and services. In simple words, money enables people to save a part of their current income for spending in future.

(3) Transfer of Value:-

Money also functions as the means of transferring value. Through money, value can be easily and quickly transferred from one place to another because money is acceptable everywhere. It is because of this function of money, people

Class : 10th
Subject : Economics
Teacher : Lokesh Arora.

classmate
Date 7/10/24
Page 7

Ch-6

can buy goods at far off places for the satisfaction of their wants.

Further, people can loan out their surplus value and earn interest. In this way, money facilitates the process of investment and growth in the country.

Students, before going further in this topic, let's me take a short break. Write the answers of the following questions in your note books.

- Q.1. What is legal tender money?
2. Give two features of money.

Now we will discuss Contingent Functions of Money:

(3) Contingent Functions:-

Contingent functions refer to those functions of money which help various economic entities such as consumers, producers etc. in taking their economic decisions. These functions include the following.

(i) Maximisation of Utility:-

Money helps the consumers in maximizing their satisfaction while

⑦

Ch-6

purchasing various goods and services. A consumer will be able to maximize his satisfaction if the ratios of marginal utilities of different commodities is equal to ratio of prices between different goods. For equalizing the marginal utilities money plays an important role, because prices of all commodities are expressed in terms of money.

(ii) Maximisation of Profit:-

Every producer wants profit maximisation while employing various factors of production. In order to maximize profit, the producer will compare the marginal productivity of each factor with the price of the factor of production and price of each factor of production is expressed in terms of money.

(iii) Distribution of National Income:-

Money facilitates the distribution of national income among people. Money helps in the distribution of national product through the system of factor prices, e.g. wage, rent, interest and profit, which are expressed in money terms.

(iv) Basis of Credit:- In the modern economy

System, credit plays a key role; and money becomes the basis of credit. For example, credit instruments like cheques, drafts, bills of exchange, etc., cannot be used without the existence of money.

(V) Miscellaneous functions:-

Money also performs miscellaneous functions. First, money is bearer of options. Every person is free to hold wealth in the form of money and spend it as he desires. Thus, money helps society in the fulfilment of its present and future wants.

Secondly, money is a guarantor of solvency. If an individual or a business firm has liquid wealth in the form of money, his capacity to pay back the debt is guaranteed. Money, therefore, is the index of repaying capacity of a firm.

With this I am ending my topic here. I will give you some questions, all the students are required to write the answers in their note-books.

- Q.1 Explain various primary functions of money.
- Q.2. What is Money?
3. Explain the Contingent functions of money.