Functions of Money

Money performs many functions in a modern economy. The functions of money refers to the works that are done or the services that are rendered by money. According to Kinley and Paul Einzig, the functions of money can be classified into the five kinds namely

I. The Primary functions , II. The Secondary functions, III. Contingent functions, IV. Static functions and V. Dynamic functions.

I . The Primary functions

Primary functions are the most important, basic and fundamental functions of money. The primary functions are two namely

1. Medium of exchange

Money act as a medium of exchange. Money serves as an instrument of exchange between buyers and sellers. As a medium of exchange money removes the difficulty of the double coincidence of wants. We can sell any goods and services for money. With this money we can buy any other goods and services. Thus money facilitates free exchange of goods and services.

2.Measure of value

Money acts the common measure of value. Money measures the value of economic goods and services. For example when we say the price of a cow is rupees 20000 the price of a goat is rupees 5000 and the fees of a doctor is rupees hundred. Money also helps to compare the relative value of goods and services.

II. The Secondary functions

The secondary functions are derived from the primary functions. The secondary functions are three namely

3. Standard of deferred payments

Money is the standard not only for present payment but also for future payments. Borrowing and repaying are made easy with the help of money. When payments are deferred in future in the case of credit transactions such as instalment purchase, Loan etc. Money is used as a standard of deferred payments.

4.Store of Value

Money serves as a store of value of goods and services. In the absence of money goods and Service cannot be stored. But money helps to preserve the value of goods and services for future consumption. We can convert to goods and services into money and save it for any length of time.

5.Transfer of value

Money helps to transfer the value of goods and services from one place to another place. For example a man in the Madurai can sell his house land or herd of goats for money and with this money can purchase the same in Delhi.

III. Contingent functions

6. Money gives Uniformity and Liquidity to Wealth

Money is the most liquid of all assets and therefore all other types of wealth can be easily converted into money. For example the assets like houses, land, animals, jewels ,Machineries etc can be easily made liquid through money. Thus Money gives uniform liquidity to all wealth.

7. Money is the distributor of National income

Money helps to divide the national income among the four factors of production. It is distributes the respective shares of the factors of production namely Rent to the land , Wage to labour, Interest to capitalist and Profit to the Organisation.

8. Money is the Equalizer of Marginal utility

Money enables the consumers and producers to maximise their satisfaction. The consumer maximises utility of a commodity with its price. similarly the producer maximises his profit by equating the price of a factor with its marginal productivity. It is the money that measures Marginal utility and marginal productivity.

9. Money is the basis of Credit system

The modern Economy is based on the credit system. For example we use many credit instruments such as Bills of exchange cheque drafts etc. So money is the basis of credit instruments and credit system.

IV. Static functions

This refers to the technical and conventional functions which ensure the smooth operation of economic system. The static functions include the medium of exchange , the measure of value , the standard of deferred payments, store of value , transfer of value and the contingent functions. These static functions will remain forever. They will not change with changes in the Political and Economic setup in the country.

V. Dynamic functions

The Dynamic change functions are those which make money to exercise a powerful influence on the entire economy. They are

1. Change in Price level

The first Dynamic functions of money is its influence on the economy through a rise or a fall in the price level. Sometimes when the money circulation increases more than the optimum level , inflation is created. When the price level is very high the middle class people , the poor people will suffer. When the money circulation falls more below the optimum level , depression is created. During this period the investment , production, will be greatly affected.
This will also create Unemployment.

2. Economic development

An efficient administration, proper use of money and productive use of money by the government will lead to Economic Prosperity. An inefficient administration, misuse of money and unproductive use of money will lead to Economic collapse.

3.Change in Social and economic life of People

The modern government more significant in social and economic fields. The Government with its enormous money power can greatly influence the economic and social life of the people by taking various measures. For example Tax, Expenditure, reduce inequality.