



Money and functions of money

Definition of money

- * Money is any item or verifiable record that is generally accepted as payment for goods and services and repayment of debts in a particular country or socio-economic context, or is easily converted to such a form.



The main functions of money

- * Medium of exchange
- * Measure of value
- * Standard of deferred payment
- * Store of value
- * Means of payment



Measure of value

A unit of account is a standard numerical monetary unit of measurement of the market value of goods, services, and other transactions. Also known as a "measure" or "standard" of relative worth and deferred payment, a unit of account is a necessary prerequisite for the formulation of commercial agreements that involve debt. To function as a 'unit of account', whatever is being used as money must be:

- Divisible into smaller units without loss of value; precious metals can be coined from bars, or melted down into bars again.
- Fungible: that is, one unit or piece must be perceived as equivalent to any other, which is why diamonds, works of art or real estate are not suitable as money.
- A specific weight, or measure, or size to be verifiably countable. For instance, coins are often milled with a reeded edge, so that any removal of material from the coin (lowering its commodity value) will be easy to detect.
- Money acts as a standard measure and common denomination of trade. It is thus a basis for quoting and bargaining of prices. It is necessary for developing efficient accounting systems.



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Medium of exchange

When money is used to intermeditate the exchange of goods and services, it is performing a function as a medium of exchange. It thereby avoids the inefficiencies of a barter system, such as the "coincidence of wants" problem. Money's most important usage is as a method for comparing the values of dissimilar objects.



Standard of deferred payment

A "standard of deferred payment" is an accepted way to settle a debt – a unit in which debts are denominated, and the status of money as legal tender, in those jurisdictions which have this concept, states that it may function for the discharge of debts. When debts are denominated in money, the real value of debts may change due to inflation and deflation, and for sovereign and international debts via debasement and devaluation.



Store of value

To act as a store of value, a money must be able to be reliably saved, stored, and retrieved – and be predictably usable as a medium of exchange when it is retrieved. The value of the money must also remain stable over time. Some have argued that inflation, by reducing the value of money, diminishes the ability of the money to function as a store of value.



Means of payment

The money is used for registration and payment of debts. This function takes an independent value to a situation of instability of prices for goods. For example, it was bought on credit goods. The amount of debt expressed in money, not in the amount of purchased goods. Subsequent changes in the price of goods has no effect on the amount of debt to be paid in cash. This function is performed as the money when money relations with the financial authorities. A similar role in the sense of money, when they express any economic indicators.



THANK YOU FOR ATTENTION

