

Functions of Money

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FUNCTIONS OF MONEY

Primary Functions of Money

- Money as a medium of Exchange
- Money as a unit of account
- Money as a standard of deferred payments
- Money as a store of value

Secondary Functions of Money

- Aid to specialization, production and trade
- Influence on income & consumption
- Money is an instrument of making loans
- Money as tool of monetary management
- Instrument of economic policy

Contingent Functions of Money

- Distribution of national income
- Basis of credit system
- Measure of marginal productivity
- Liquidity of property

PRIMARY FUNCTIONS OF MONEY

1. Money as a medium of Exchange

- Used to pay for goods and services
- Overcame double coincidence of barter system
- Introduced time efficiency of exchanging goods and services
- Encouraged division of labour. People are now specializing due to easier payment of services rendered..

2. Money as a unit of account

- Common measure of money.
- Used to compare goods in terms money



CONTINUE...

3. Money as a standard of deferred payments

- Money is useful in the purchasing goods on credit as it is easy to borrow-and lend

4. Money as a store of value

- Does not deteriorate and stores value
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SECONDARY FUNCTIONS OF MONEY

Money has the potential to influence an economy, by influencing interest rates, price levels, resources, etc.

1. Aid to specialization, production and trade
2. Influence on income & consumption
3. Money is an instrument of making loans
4. Money as tool of monetary management
5. Instrument of economic policy

CONTINGENT FUNCTIONS OF MONEY

Contingent functions are derived from primary & secondary functions

- Distribution of national income
- Basis of credit system in banks
- Measure of marginal productivity
- Liquidity of property