Functions of Money

Money, as defined by economists like D.H. Robertson and Crowther, is **anything generally accepted as a means of exchange** and also serves as a **measure and store of value**. Its significance in a modern economy arises from the multiple roles it plays, which can be classified into **primary**, **secondary**, and **contingent** functions.

. Primary Functions (Fundamental and Original)

These are the most essential roles of money, without which the concept loses meaning.

1. **Medium of Exchange**
   - Facilitates transactions by eliminating the *double coincidence of wants* in a barter system.
   - Example: Selling wheat for money and then buying rice, rather than bartering wheat for rice directly.
   - This function makes trade more efficient and enables a complex market system.
2. **Measure of Value (Unit of Account)**
   - Provides a common unit in which prices of goods and services can be expressed.
   - Simplifies transactions by allowing easy comparison of values.
   - Example: In India, values are expressed in Rupees; in the USA, in Dollars.
   - Derives from its role as a medium of exchange—once goods are exchanged for money, each good acquires a price.

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2. Secondary Functions

These support and extend the usefulness of money in an economy.

1. **Standard of Deferred Payments**
   - Enables future obligations to be stated in monetary terms.
   - Essential for credit transactions—borrowers agree to repay in money at a future date.
   - Facilitates long-term contracts and modern trade.
2. **Store of Value**
   - Allows transfer of purchasing power from present to future (intertemporal link).

- People hold money to meet unforeseen contingencies or take advantage of interest rate changes (Keynesian emphasis).
- Money is the most liquid asset—easily converted into goods and services.
- Limitations: Inflation erodes its value; modern economies often prefer interest-bearing assets for storage.

3. **Transfer of Value**
    - Purchasing power can be moved across space (e.g., selling assets in India and settling in the USA).
    - Historically via gold/silver; now mainly through bank deposits and digital transfers.

3. Contingent Functions

These are indirect roles that money performs in the economic system.

1. **Basis for Credit Creation**
    - Banks use money to create credit, which is vital for economic growth.
2. **Distribution of National Income**
    - Facilitates the allocation of income among factors of production—land, labour, capital, and entrepreneurship.
3. **Measure and Maximisation of Utility**
    - Consumers and producers use money to measure satisfaction and returns, enabling rational decision-making.
4. **Liquidity Provision**
    - Money provides the highest liquidity compared to other assets, making it the preferred form of holding wealth for quick transactions.