

# Assignment # 2

**Topic: History of Money**

Program: BSCS (Morning)

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# Objectives

After going through this unit, you will be able to explain:

- The history of money
- Origen of money
- Functions of money
- Evils of money

## DEFINITIONS

Money has been defined differently by different economists.

1. Descriptive Definitions
2. Legal Definitions
3. General Acceptability Definitions

## Descriptive definitions

- \* Anything that is generally acceptable as a means of exchange and that at the same time acts as a measure and store of value.”
  - Crowther in An outline of money
- \*“Money may be defined as a means of valuation and of payment”
  - Coulborn

Money is anything that is widely used as a mean of payment and is generally acceptable in settlement of debts.”

## Legal Definitions:

\*Anything which is defined by the state as money is money

- Professor Knap

\*Professor Hartley believes that money should be legal tender.

“Money is anything that is generally accepted in payment of goods and services or in the repayment of debts.”

–E. Mishkin

“MONEY IS ANYTHING THAT IS REGULARLY USED IN ECONOMIC TRANSACTIONS AND SERVES AS A MEDIUM OF EXCHANGE, A UNIT OF ACCOUNT AND A STORE OF VALUE.”

## ORIGIN OF MONEY

- Money has evolved through five different stages during history:

1. Commodity money
2. Metallic money
3. Paper money
4. Credit money
5. Electronic money

## ORIGIN OF MONEY

### 1. Commodity money:

- \* Commodity money has a value apart from its use of money.
- \* A large number of items such as cows, goats, sheep, rice, grains, etc were used
- \* However they lacked storage capability, durability, transportability, divisibility, and homogeneity.

## 2. **Metallic money**

**\*Coinage:** gold and silver were used as coins, stamped by a competent authority.

\*As time passed, transportation and storage of coins became inconvenient and dangerous

## 3. **Paper Currency:**

Paper currency is made of paper and functions as a medium of exchange

Initially paper currency carried a promise that it was convertible into a fixed quantity of precious metallic gold and silver

This promise was eliminated in 1914 in England and in 1933 in America.

**Fiat money:** this newspaper money which is considered legal tender because the government says it is money.

It has no backing of gold, silver or government securities

### Credit money or bank money:

\*Bank money is the use of cheques as the medium of exchange.

\* Cheques have made it possible an easier to make transactions for large amounts. They are easier to transport  
They are safe and provide receipts

Checks are not legal tender. They cannot be enforced in payments of debts

#### 4. **Electronic banking stage:**

\*This is a modern system of transferring funds using Electronic Communications.

\*Payments are now made through magnetic strip cards such as bank debit cards, credit cards, telephone cards etc.

\* This form of banking has reduced processing costs, lead times for payments and increasing flexibility.

\* These are also not considered legal tender

## **FUNCTIONS OF MONEY**

### **1 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

## 2 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

## 3 Contingent Functions of Money

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

# EVILS OF MONEY

1. It creates economic instability
2. It leads to over capitalization and over production
3. Money strengthens capitalism
4. Money causes trade cycle
5. Money creates inequality of income and wealth
6. Money is the main cause of corruption
7. Money just mobilizes the resources but does not creates it.

**There are three type of money**

**Commodity money , Fiat money, Bank money**

# KINDS OF MONEY

## **COMMODITY MONEY**

- Commodity money is a good whose value serves as the value of money
- Gold coins are an example of commodity money.
- Commodity money has been replaced with fiat money

## **FIAT MONEY**

- Fiat money is a good, the value of which is less than the value it represents as money.
- Currency are an example of fiat money because their value as slips of printed paper is less than their value as money.

## **BANK MONEY**

- Bank money consists of the book credit that banks extend to their depositors.
- Transactions made using checks drawn on deposits held at banks involve the use of bank money.
- example:- DD, Checks, credit & debit cards