

19. Money

Objective

At the end of this chapter the students should be able to define money, relate the history of money, list the functions of money, state the qualities of money and finally describe the different forms of money.

19.1 Introduction

Meaning of Money

Money is absolutely necessary in a modern exchange economy whereby selling and buying often takes place.

Money is an object that is generally chosen and accepted by a community as a medium of exchange and a standard of value. Money acts as a link between two commodities for the purpose of facilitating their exchange as the value of all economic goods and services is measured in monetary terms.

Table 19.1 Currencies of Various West African Countries

Countries	Notes	Coins
Nigeria	1 naira (₦)	= 100 kobo (k)
Ghana	1 cedi (C)	= 100 pesewas (P)
Sierra Leone	1 leone (Le)	= 100 cents (c)
Gambia	1 dalasi (D)	= 100 butut (b)
French-speaking countries	1 franc (fr)	= 100 centimes
Liberia	1 dollar (USA \$)	= 100 cents

The Denominations of the Naira

Since currencies are for commercial purposes they are divided into convenient units:

Table 19.2 Units of the Naira (₦)

Notes	Coins
₦500.00 (500 naira)	₦1.00 (1 naira)
₦200.00 (200 naira)	50k (50 kobo)
₦100.00(100 naira)	10k(10kobo)
₦50.00 (50 naira)	5k (5 kobo)
₦20.00 (20 naira)	

₦10.00 (10 naira)

₦5.00 (5 naira)

lk (1 kobo)

19.2 History of Money

Bank notes and coins as they are today are recent developments as a medium of exchange. At different periods in history, different objects have come into use as medium of exchange. In West Africa, for instance, traders adopted the use of iron bars, cowries, and manillas, as currencies. In other parts of the world, various commodities were used. For example, the Romans used cows which means *pecus* in Latin, from which the English word *pecuniary* (i.e. having to do with money) was derived. The Indians have also used cattle from which comes the word *rupee*, the name given to their national currency till today. Mexico used maize and cocoa beans, which is one of their natural endowments; while the whole of Europe used cattle extensively.

However, with the passage of time, one country after the other introduced her own coins to support some of these commodity money for the main reason that the latter were indivisible. In most cases, metals were introduced. So, there were gold rings, iron swords, axes heads, copper chains, and metal shells; but it took a long time to build up confidence in these metal currencies. The result was that, even as recently as 1912, when the West African Currency Board was set up with the sole responsibility for note-issuing in all British West African countries, the commodity money currencies still co-existed with the notes and coins issued by the board.

19.3 Functions of Money

In brief, the functions of money can be classified into primary and derivative. The former includes the functions of money as a medium of exchange, and as a unit of account, or a measure of value. The derivative functions include its functions as a store of value and as a measure of deferred payment. These two are regarded as derivative functions because, they derive from the primary functions. The four functions combine to give money its fifth function: a lubricant of the commercial system.

- (i) *As a medium of exchange:* Money is exchanged readily for all types of goods and services. There is no need to tie up the money exchanged for goods or services with other goods or services that it could acquire later on. It is acceptable on its own merit for the multiplicity of goods and services in the world of commerce. Thus, money has been acclaimed the *bearer of options*.
- (ii) *As a unit of account or measure of value:* Money is now a common denominator in which all types of goods and services can find their values. Consequently, prices are quoted in respect of all goods and services. Trading performances in any type of business can be expressed in terms of profit and losses, and in form of balance-sheets representing value of assets or liabilities. It helps in translating the value of all goods, services and business performances into specific monetary units on domestic fronts, and also assists the international economy and commerce to express the currency of one country in terms of another.
- (iii) *As a store of value:* Once money is acceptable and accepted as a medium of exchange and a unit of value, it follows that it can be used as a store of value. Money, thus, provides a

corrective measure to one of the flaws of barter trade, whereby valuable wealth could only be stored in animals or animate objects, whose future values were uncertain; and which could prove expensive to keep, apart from the fact that they could be dead or stolen if kept for long. In modern commerce, a rich man can store his money in the banks or in shareholdings which can be turned into money and used freely as he wishes later on.

- (iv) *As a standard of measure for differed payments:* Without this important function, commerce would not be what it is today. Very many things are in deferred payments in the present world of commerce. Our salaries and wages are deferred payments since we have to work for a whole week or month before we are paid on the last day of the week or month. Our electricity and water bills are deferred payments. Rents and interests are paid in arrears.

19.4 Qualities of Money

For money to perform the four functions mentioned above, it must possess certain qualities which anything that would pass as money must possess. We shall, therefore, discuss those special qualities that must be possessed by anything that would serve as good money.

- (i) Acceptability
 - (ii) Durability
 - (iii) Stability (in value)
 - (iv) Storability
 - (v) Cheapness of maintenance
 - (vi) Divisibility
 - (vii) Standard units
 - (viii) Homogeneity
 - (ix) Congnizability
 - (x) Portability
 - (xi) Relative scarcity
- (i) *Acceptability:* The object chosen as money must be acceptable generally. It must win the overwhelming confidence of the people. Although the force of law can add to its weight by putting it across to the people in form of legal tender, the law will never succeed in imposing it on the people. For instance, it may lead to a ridicule of the law if it is passed into law today that cows should function as money. For some obvious reasons as mentioned earlier under the old commodity money, cows as a medium of exchange would be unacceptable to modern man. In effect, the only other factor that would help a legal tender is the general acceptance and implicit confidence of the people. This explains why in West African countries today, naira (in Nigeria); leone (in Sierra Leone); cedi (in Ghana); and dalasi (in Gambia) are acceptable as legal tenders or money.
- (ii) *Durability:* The material chosen as money becomes the form in which our wealth or asset is carried about or stored away as required. Such material, therefore, must be long-lasting (durable). It must be able to stand the rough handling of daily commercial transactions. Sugar or salt cannot stand the slightest exposure to rain while butter would melt under the intensive heat of the sun. But our naira and kobo in Nigeria can stand rain or sun without any noticeable wear or tear.

- (iii) *Stability*: Money must be stable in the foreseeable future if it is to command acceptance and respect as store and measure of value. The Central Bank of Nigeria must control the supply of naira to keep its value stable.
- (iv) *Storability*: Man needs to hold some money for daily expenditure – either foreseen or unforeseen. Sometimes, man has to store away some of his money for some time before spending it. Unless money can be easily stored away, it can create a lot of inconvenience. For instance, in how many buildings would one keep (₦100,000.00) one hundred thousand naira worth of cowry shells if 150 cowries were worth only 1 kobo (i.e. 1,500,000,000 cowries)?
- (v) *Cheapness of maintenance*: It must not be very expensive to keep oneâ€™s goods. For instance, it would definitely cost much in terms of feeding, housing and other cares to keep one million naira worth of wealth in form of cows and houses; whereas in modern monetary system, keeping one million naira would generate a substantial income per year of about ₦50,000.00 at a conservative (low) interest rate of 5% per annum.
- (vi) *Divisibility*: Daily commercial transactions range from the twenty kobo for sweet to the hundreds or thousands of naira spent by retailers or wholesalers in filling their warehouses with stocks with goods. The small or big time employers are in need of notes and coins of different units (₦200.00, ₦100.00, ₦50.00, ₦10.00, 50k, 10k, and even 1k) when paying salaries and wages of their employee. Hence, money must be divisible into convenient units of naira and kobo as shown earlier on in this chapter. Divisibility must be possible without damage to the money material. Cattle and slaves cannot be divided without killing them.
- (vii) *Standard units*: The units must be standard. Cows of different or even of the same age and by the same mother can never be equal. The divided units of money must be standard, i.e. one ₦20.00 note = two ₦10.00 notes = four ₦5.00 notes = twenty ₦1.00 notes = forty 50k notes = two hundred 10 kobo coins = two thousand 1 kobo coins.
- (viii) *Homogeneity*: The material that would serve as money must be identical, and must be easily recognizable throughout the country. A coin in Maiduguri must look the same in Sokoto, Benue, Ibadan, Benin or Enugu.
- (ix) *Cognizability*: The material used as money must not only be identical, but must also be easily recognizable throughout the country. For this reason, special designs are imprinted on the faces of our notes and coins. To guard against the adroit efforts of counterfeiters, some invisible security designs are incorporated that can only be felt with fingers run through the faces of the notes.
- (x) *Portability*: Carrying some cash is suitable for most of our daily petty commercial transactions. The more the ease with which the notes and coins can be carried, the better. In this regard, packets of butter as money would be difficult to carry; while a thousand cowries may have to be tied to the waists of shoppers for buying relatively few items. However, our notes and coins are easy to carry for shopping up to several thousand naira worth of goods
- (xi) *Relative scarcity*: Economics teaches us that scarcity is value. If any article of money would command value, its supply must be controllable. This is why the national government constitutes the only genuine authority to order and regulate the supply of money. This explains why excessive wage demands are frowned at by governments, and counterfeiters of currencies are severely dealt with in the law courts. This is why year after year, government budgets are pre-occupied with balanced budgets, i.e. pumping into the

economy by way of government expenditures as much as it is taken out of the economy in form of taxes.

19.5 Forms of Money

- (i) *Coins*: A coin is made out of metal, it has a definite amount and weight. It is issued and stamped by the central bank of Nigeria which has the responsibility for issuance of money in the country. In Nigeria the metal coins are in the denominations of kobos (k), i.e. 5k, 10k, 25k, 50k, and also in ₦1. Because of their low economic value, they are in popular use.
- (ii) *Paper Money*: As the name implies, it is in form of paper notes. This originates from the issue of receipts for deposit of gold kept with the goldsmith in the old-days. Most of the money in circulation today is in form of paper money or bank notes.
- (iii) *Gold-backed money*: This is the form of money that the central bank is prepared to convert into gold if its holder so decides to ask for gold.
- (iv) *Bank money*: This is the money one keeps in one's bank account. The owner has to withdraw it from the bank before it can be used as money whether in cash or spent by the issue of cheques on current accounts.
- (v) *Foreign money*: This is the currency of other countries but can exchanged for our local currency at the prevailing exchange rate. Some of the popular foreign money are: Pound Sterling, Dollar, Japanese Yen, etc.
- (vi) *Legal tender*: This is money that has the force of law behind it and it is generally recognized as money in the community. However some legal tenders have some legal limitations dictated by the convenience or otherwise of the people. For instance, an estate agent would not wish to accept payment in coins for a house he sold for five million naira because coins up to ₦100 is no longer legal tender.
- (vii) *Commodity money*: This is money represented by different forms of commodity at a time in money history. Examples are, cowries, shark teeth etc.
- (viii) *Token money*: This is money commanding two sets of values, i.e. its intrinsic value as a piece of metal and its face value as money. For instance, the British silver coins had to be replaced by the cupronickel because their value as silver rose higher than the value as a coin during the two "World Wars". This was to avoid illegally melting down the silver or holding it.
- (ix) *Representative money*: This is a document used in lieu of legal tender. But it is not freely and fully acceptable as money. Good examples are cheques, postal and money orders. Stamps, promissory notes, bills of exchange. These documents have no full acceptability as money since they are not necessarily legal tenders.

Summary

â€¢ *Definition of money*: It is anything that is acceptable in exchange for goods and services. In modern times, money is referred to as the currency of any country and it is usually in denominations for ease of use. The value of any money is determined by the amount of goods and services it can buy at a time.

â€¢ *Types of money*: In the early days there were commodity money, gold-backed money,

and gold money.

â€¢ *Qualities*: These include acceptability, durability, legality, and relative scarcity.

â€¢ *Uses of money*: Money serves as a medium of exchange, unit of account, store of value, and a standard for deferred payment. The first two are primary functions while the last are derivatives of the first two functions.

Revision Questions

A. *Essay Questions*

1. (a) Classify means of payment under the following headings:
 - (i) Legal tender
 - (ii) Banking system
(b) Explain any FIVE of the means of payment identified in 1a. above
(NECO)
2. (a) What is money? *(2 marks)*
(b) List and explain FOUR qualities of money *(8 marks)*
(c) Explain any FIVE functions of a commercial bank *(10 marks)*
(NECO 2002)
3. (a) Discuss what you understand as gold-backed currencies
(b) Mention TWO advantages and TWO disadvantages of gold-backed money
4. Define â€œtrade by barterâ€ and explain its inadequacy in the modern economy.
5. Mention and discuss briefly four of the important functions of money.

B. *Objective Questions*

1. The function of money which allows payment to be made on future date is known as:
 - A. measure of value
 - B. medium of exchange
 - C. standard for deferred payment
 - D. store of value
 - E. unit of account
(NECO 2002)
2. Which of the following makes currency note a legal tender?
 - A. Scarcity
 - B. Homogeneity
 - C. Durability
 - D. Acceptability
(WASSCE 1999)
3. Standard for deferred payment is a function of money which
 - A. discourages savings
 - B. makes lending difficult
 - C. facilitates credit sales

- D. forbids borrowing
- 4. Which of the following is not a function of money?
 - A. is a medium of exchange
 - B. serves as a store of value
 - C. is easily recognisable
 - D. makes deferred payment possible

(WASSEC 2002)

- 5. The term legal tender refers to
 - A. coins & cheques
 - B. coins and bank notes
 - C. cheques and bank notes
 - D. postal and money orders

(NECO 2002)

- 6. One of these is not necessarily a quality of money materials
 - A. acceptability
 - B. security
 - C. storability
 - D. divisibility
 - E. durability
- 7. In referring to money as "lubricant" of the commercial system, it helps in all these forms except one:
 - A. price determination
 - B. credit system
 - C. expression to international division of labour
 - D. medium of exchange
- 8. Homogeneity in materials to be used as money means
 - A. counterfeiting
 - B. portability
 - C. easy recognition
 - D. easy divisibility
- 9. All of these except one is no money
 - A. credit facility
 - B. bankruptcy
 - C. overloading of an invoice
 - D. bad debt
- 10. Which of these is the most superior form of money
 - A. cash in hand
 - B. cash in bank
 - C. bank fixed deposit
 - D. deferred payment

Project

1. Find out from the older members of the family how the need for some goods and services were genuinely met before the use of money in your locality.
2. Ask for and list out all sorts of commodities in use as a medium of exchange in the past.