Money

When the human civilization was not developed, people used to exchange tho goods which they produced for those which others produced. Such an act of exchang ing goods for goods is called barter. But as the years rolled by and when the soci organization became more complex, barter system was found to be not practicab

The difficulties in barter system were replaced with the introduction of mon Money has been defined as the medium of exchange. According to Robertson mon is defined as *"Anything which is widely acceptable in discharge of obligations"*. The differe stages in the development of money are as follows.

1. *Commodity Money:* The earliest form of money consisted of goods like rice, whea cattle, skins, elephant tusks *etc*. These were accepted as they were all desired b all the people.
2. *Metallic Money:* As the civilization advanced, people found it difficult to carry o the exchange transaction with commodities, as they were found to be very incon venient. Commodity money gave way for the metals to be used as money. The metals include gold, silver, copper, bronze, *etc*. From the beginning of their intro duction, Government kept the right to issue coins and certify their weight an quality. Metals were converted into coins for this purpose.
3. *Paper Money:* Paper money is introduced to supplement the metallic money. Wh paper money was introduced, it was backed up by exactly equal amount of g or silver kept in reserve by the issuing authority. But now paper money is n backed up by metals like gold and silver, but only proportional reserves are mai tained. Their issue rests more on people's confidence on the issuing authori Such a currency is called fiduciary issue and Indian currency largely is of fiduci issue.
4. *Bank Money:* Paper money has been supplemented or at times replaced by ba money. It refers to the bank deposits. Deposits can be converted into money by depositors through cheques.

KINDS OF MONEY

The main kinds of money are (1) Metallic money and (2) Paper money. These further divided into standard money and token money.

1. *Standard Money:* For such type of money, intrinsic value (real value) is equal to value (the value written on the coin). It is subjected to free coinage. The coins made of gold and/or silver. As such, no country has such a money in circula

2. *Token Money:* This money is made up of cheaper metal. Its face value is greater than its intrinsic value. The rupee is a standard unit of money in India, but its face value is greater than its real value and also it is not subjected to free coinage. It is a mixture of standard and token money.

Characteristics of Money: Following are the characteristics of money.

1. *Cognisability*: As it used as medium of exchange, money should be easily recognized by one and all. Keeping this in view, the citizens of a nation give value to their respective currencies, issued by monetary authorities. In India the quantum of currency and its value are determined by RBI and Ministry of Finance.
2. *Utility*: When money is deposited by the public in different financing institutions, they will get different interest rates. This is due to the fact that money-receiving agency (borrowing agency) will have different time utilities for money. In other words, they use the money for the best alternative purpose and accordingly pay the interest to the lenders, depending on the need. Similarly money will have possession utilities and place utilities also.
3. *Portability*: It should facilitate easy carrying from one place to another without expense or inconvenience to the individual user. In other words, the bulkiness, weight and other inconveniences in the transactions are reduced with the help of currencies of different denominations, such as Rs. 5, Rs. 10, Rs. 20, Rs. 50, Rs. 100, Rs. 500 and Rs. 1,000 notes.
4. *Durability*: Coins are more durable than the paper currencies. Particularly, currencies of lower denominations *viz.*, 10 paise, 25 paise, 50 paise, one rupee and 5 rupees are being in circulation in the form of coins in order to provide durability. Similarly keeping the same purpose in view, the standard paper is used for printing currency notes.
5. *Indestructibility*: In the normal usage the coins should not get disfigured easily and the paper currency should not get torn easily in the circulation.
6. *Stability*: The value of money should not be changing. It should be more stable. For this to achieve there is need to eliminate inflation in the economy.
7. *Homogeneity*: All coins of the same metal should be as identical as possible with regard to quality and weights. Similarly notes should be printed with the same quality paper with utmost caution and use of sophisticated machinery, otherwise fake notes come into circulation and cause inflation.
8. *Universal Acceptability*: The value of the currency issued by monetary authority in the country should be recognized uniformly in all the states of the nation. Such currency of the nation will be accepted internationally also, provided the currency follows the norms of international monetary authority.

Functions of Money: Money performs five important functions.

1. *Medium of Exchange*: Money facilitates the buying and selling of goods and services as a medium of exchange.
2. *A Unit of Account*: Money is used as the measure of value of all goods and services. Rupee is the monetary unit in India. The value of all goods and services is expressed in rupees.

3. *Standard of Deferred Payments:* Money facilitates the settlement of debts and future transactions without any risk.
4. *Store of Value:* Money is a form of holding wealth. If one feels that the available money is in excess of his requirements it is convenient to save and use it as and when the need arises.
5. *Transferable:* It facilitates the easy transfer of value. The disposal and purchase of assets can be done very easily with money.