

B.Com. Part III

Sub: Money and Financial System

Unit 1

Money and it's Functions

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Barter system:

Direct exchange of goods and services for other goods and services



Difficulties in barter system:

- **Lack of double co-incidence of wants.**
- **Lack of common measures of values.**
- **Difficulties in storing values.**
- **Deferred of payments / Absence of loaning.**
- **Indivisibility of certain goods.**





What is Money?



- Money is defined as anything that the public readily accepts in payment for goods and services and **other assets** and in the discharge of debt.
- Money is anything that is generally acceptable as means of exchange.
- **All media** of exchange and payment, whose acceptance the law requires in discharge of debts.



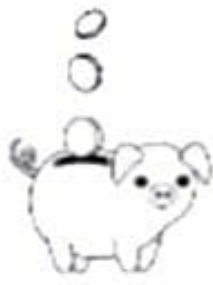
Money Functions



- Money performs five important functions:
 1. It serves as a medium of exchange
 2. It is store of value
 3. Standard measure of value
 4. Standard of deferred payments
 5. Transfers values

1. Medium of exchange

1. People use money to exchange goods .
2. Money facilitates exchange by reducing the cost of trading.
3. Has ready purchasing power
4. Money makes transaction easier.
5. Generally acceptable.
6. Removed the needs of double coincidence of wants.



2. Store of Value



- It commands goods and services in the present as well as in future
- It is a financial asset that can be used to store wealth
- Works as bridge between present and future value of wealth.
- It is used to meet unforeseen emergency and to pay debts.

3. Money is a standard measure of value.

- Money acts as a unit of account.
- Money measures values of goods and service in its unit of account.
- A unit of account is a standard numerical unit of measurement of the market value of goods, services, and other transactions.
- It is used to check profit loss and liabilities
- With money , it is easy to compare the relative values of commodities and services that are different from one another.
- Example the rupee is a unit of account in India while (\$) dollar is the unit of account in USA.

4. Money serves as a standard of deferred payments

- It is a unit in terms of which debts and future transactions can be very easily settled.
- The rupee or unit of account is the standard of deferred payment or future payment. Thus loans are advanced and future contracts are settled in terms of money.
- In short future payments for current purchases.

Buying now, paying later

It transfers value

- Money has ability to transfer value one person to other person easily at any place.
- One can easily sell out his immovable belongings (say, buildings) at one place and buy them elsewhere.

THANK YOU