

# Study Materials for BA (Hons.) Economics Students

Part – 1

Paper – 2

Topic – Role of Money in Economy

## Introduction

The word “money” is believed to originate from a temple of ‘Juno’, located on Capitoline, one of Rome’s seven hills. In the ancient world Juno was often associated with money. The temple of Juno Moneta at Rome was the place where the mint of Ancient Rome was located.

The name “Juno” may derive from the Etruscan goddess Uni (which means “the one”, “unique”, “unit”, “union”, “united”) and “Moneta” either from the Latin word “monere” (remind, warn or instruct) or the Greek word “moneres” (alone, unique).

Money has been defined differently by different economists. Some, like F.A. Walker, define it in terms of its functions, while others like G.D.H. Cole, J.M. Keynes, Seligman and D.H. Robertson lay stress on the ‘general acceptability’ aspect of money.

According to Prof. D.H. Robertson, “anything which is widely accepted in payment for goods or in discharge of other kinds of business obligation, is called money.” Seligman defines money as “one thing that possesses general acceptability.” Prof. Ely says: “Money is anything that passes freely from hand to hand as a medium of exchange and is generally received in final discharge of debts.”

## Characteristics of money

- 1. General Acceptability:** - Money is accepted by all as a medium of exchange. Thus, it has general acceptability. No one denies to accept money as a medium of exchange. People do not hesitate to accept it as standard of payment.
- 2. Measure of Value:** - Value of any good or service can easily be measured in terms of money. It is accepted as a measure of value.
- 3. Active Agent:** - Money is an active agent of an economic system. In modern economy, money is required in every commercial process. Process of production cannot start without the participation of money.

4. **Liquid Assets:** - Money is highly liquid asset. It can easily be converted in goods and services. Debt, stock and bills, etc., are the other liquid assets but the liquidity of money is highest than the other liquid assets. One has to first get to convert other liquid assets into money, then it can be converted in desired goods or services, while money can directly be converted.
5. **Money is a Means and not an End:** - The word money is means to acquire things desired. Money itself cannot be used to satisfy. It is indirectly used to get any goods or services to satisfy human wants.
6. **Voluntary Acceptability:** - Money is voluntarily accepted by people. There is no requirement to get legal approval. People always wish to hold money.
7. **Government Control:** - Reserve Bank of India and Govt, of India have an authority to issue currency which is accepted as a form of money in India. No other authority can issue currency notes. Thus, the government keeps control over the money supply in the country.