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(Paper-2)

Money-Role of Money In Economic System

Store of Value

Because money's usefulness as a medium of exchange in transactions is inherently future-oriented, it provides a means to store value obtained through current production or trade for use in the future in the form of other goods and services. In particular trading their non-fungible, non-durable, non-portable, non-recognizable, or non-stable goods or services for money here and now, people can store the value of those goods to trade for goods at other times and places. This facilitates saving for the future and engaging in transactions over long distances possible.

Standard of Deferred Payment

To the extent that money is accepted as a general medium of exchange and serves as a useful store of value, it can be used to transfer value for exchange use at different times between people through the tools of credit and debt. One person can loan a quantity of money to another for a period of time to use, and repay another agreed-upon quantity of money at a future date. The stored value represented by the loaned money is transferred from the lender to the borrower in exchange for an agreed quantity of stored value in the future. The borrower can then use and enjoy the value of other goods and services that they can now purchase in exchange for payment at a later date. The lender in effect is able to loan the current use of real goods and services (which he does not himself originally possess) to the borrower. The sellers of the goods are able to receive payment for their goods now, instead of loaning the goods directly to the borrower in hope of future return or repayment.

Types of Money

There are several types of money.

Market-Determined Money

Money originates as a feature of the spontaneous order of markets through the practice of barter (or direct exchange), where people trade one good or service directly for another good or service. In order for a trade to occur in barter, the parties to the exchange must want the good or service that their counter-parties have to offer. This is known as the double coincidence of wants, and it sharply limits the scope of transactions that can occur in a barter economy.

However certain goods in a barter economy will be generally desired by more people in trade for whatever they have to offer in barter. These tend to be goods that have the best combination of the five properties of money listed above. Over time, these special kinds of goods can come to be desired in trade partly for their wide acceptance as a means to overcome the problem posed by the double coincidence of wants in future transactions with others. Eventually, people can come to desire a good mostly or solely for its use-value in reducing transaction costs in future exchanges.

Such a good can then be called money because it is generally recognized by participants in the economy as a valuable good for its use as a medium to indirectly exchange other goods and services between multiple parties. The physical commodity will still have some other use-value, but the primary use of any source of value has in the market is for its use as money. Historically, precious metals like gold and silver were adopted as these kinds of market-determined moneys.