**Evolution , Function & Characteristics Of Money**

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**Introduction**

Money was originally invented by the man as a common denomination. It was mainly to be used for exchange of goods and to save the earnings in the form of money. In the old days, money was secondary to the value of the man. But as the time progressed, the value of money increased tremendously and the value of the human being decreased in comparison to money. We need money for buying food and for arranging basic amenities. We need more money for living comfortably. We need to earn even more money to live luxuriously. We need to earn more money for saving for the safety of ours and of our family members in the future against any calamity.

 When we have money, people give us respect in the society. It is important that we earn money and save money too. Earning money in illegal ways can be dangerous in future. So earn money honestly and live happily.

**Evolution of Money:**

As barter system was an inconvenient method of exchange, people were compelled to select some commodity which was most commonly accepted in that area as a medium of exchange. Thus, a large variety of goods came to be used as money; gradually the most attractive metals, like gold, silver, etc., were adopted as money almost everywhere.

Money has now taken the place of all these commodities. Later coins were replaced or supplemented by paper currency for the reasons of economy and convenience. The bank cheques, drafts and promissory notes came into use in addition of currency to serve as the most important type of money. However, today each country has its own monetary system and the money of one is not usually acceptable outside its borders.

In fact, this is one of the reasons which makes international trade different from internal trade. Money was not invented overnight. The development of money was rather slow. It is the result of a process of evolution through several hundred years.

The different types of money indicate the different stages of the development of money. Wheat, corn, tobacco, skins, beads, gold, etc. Even live animals served as a medium of exchange at different times in different parts of the world. Rulers in all lands found that making coins is a profitable business and took it into their own hands.

**Meaning and Definitions of Money:**

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).

Now-a-days everybody recognizes money but usually does not know how to define money. Money has been defined differently by different economists. While some economist like WALKER has defined money in terms of the functions, while others like KEYNES, COLE, ROBERTSON, etc., have emphasized on the general acceptability aspect of it.

To serve as money, the definition of money should be comprehensive enough to cover all the essential functions that money performs in the economy. Before we arrive at the most suitable definition, it is essential to study a few definitions of money as given by some eminent economists.

**Definitions of Money:**

Money is one such concept which is very difficult to be restricted to some well-defined set of words. It is very easy to understand but difficult to define. Still, a large number of economists have given variety of definitions, some definitions are too extensive while others are too narrow. Various economists like Prof. Walker, Robertson, Seligman, etc., have used different characteristics for defining it. According to Prof. Walker, “Money is what money does”. It is associated with the functions performed/roles played by money.

However, a suitable definition must be comprehensive and must emphasise not only on the important functions of money but also on its basic characteristics, namely general acceptability. Looking from this criterion, we find Crowther’s definition to be the most suitable.

“Anything that is generally acceptable as a means of exchange (i.e., as a means of settling debts) and that at the same time, acts as a measure and as a store of value.” — Crowther

This definition covers all the three important functions of money and also stresses its basic characteristic, namely general acceptability.

**Legal Tender Money and fiduciary Money:**

Legal tender money is issued by the monetary authority of a country. It has legal sanction of the Government. Every individual is bound to accept legal tender money in exchange for goods and services, and in the discharge of debts.

**Legal tender money is of two kinds:**

(a) Limited legal tender, and

(b) Unlimited legal tender.

Fiduciary optional money is non-legal tender money as it is generally accepted by the people in final payments. It comprises credit instruments like cheques, drafts, bills of exchange, etc. Acceptance of optional money depends upon the will of a person.

**Stages in the Evolution of Money:**

**(i)Animal Money:**

In ancient India, Go-Dhan (cow wealth) was accepted as form of money. Similarly, in the fourth century B.C., the Roman State had officially recognized cow and sheep as money to collect fine and taxes.

**(ii)Commodity Money:**

The second stage in the evolution of money is the introduction of commodity money. Commodity money is that money whose value comes from a commodity, out of which it is made. The commodities that were used as medium of exchange included cowrie shells, bows and arrows, gold, silver, food grains, large stones, decorated belts, cigarettes, copper, etc.

However, the commodity money had various drawbacks such as there could be no standardization of value for money, lacks the property of portability and indivisibility. Therefore this form of money became an unsuitable medium of exchange.

**(iii)Coinage:**

The next step is coinage. This is just like a commodity money but the commodity is the metal that the money is made of. Thus, it can be seen that commodity money is of two types i.e., metallic and non-metallic.

When the use of money was not so very extensive, copper could do the job but when the number of transactions increased gradually, silver and then gold was used as a main metal for money and coins of small denominations were prepared either of copper or of silver.

Metallic money at one stage were used as full bodied money, i.e., the full value was equal to the intrinsic value of the metal.

Non-metallic commodity money was used on a large scale in our early days of civilization.

**(iv)Paper Money:**

The next important stage in the evolution of money is the paper money which replaced the metallic money. The transfer of sum of money in terms of metallic money was both inconvenient and risky. Therefore, written documents were used as temporary substitutes for money. Any person could deposit money with a wealthy merchant or a goldsmith and get a receipt for the deposit.

These receipts and documents were not actual money but temporary substitutes of money. This marked the development of paper money. These paper notes gradually took the form of currency notes.

**(v)Bank Money:**

As the volume of transactions increased, paper money started becoming inconvenient because of time involved in its counting and space required for its safe-keeping. This led to the introduction of bank money (or credit money).

Bank money implies demand deposits with banks which are withdraw able through cheques, drafts, etc. Cheques are widely accepted these days particularly for business transactions. Debit and credit cards also fall under this category.

**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.

**Classification of Money:**

Money assumes so many forms in real life that it is difficult to identify what constitutes money and what not. Different economists have classified money in different forms.

**The more important classifications of money are as follows:**

**(i) Actual Money and Money of Account:**

Actual money is that which actually circulates in the economy. It is used as a medium of exchange for goods and services in a country. For example, paper notes of different denominations and coins in actual circulation in India constitute the actual money. Money of account is that form of money in terms of which the accounts of a country are maintained and transactions made.

For example, rupee is the money of account in India. Generally, actual money and money of account are the same for a country; however, sometimes actual money may be different from the money of account. For example, rupee and paise is the money of account in India. In real practice, however, one paisa coin is nowhere visible.

**(ii) Commodity Money and Representative Money:**

Commodity money is made up of a certain metal and its face value is equal to its intrinsic value. It is also referred to as full-bodied money. Representative money, on the other hand, is generally made either of cheap metals or paper notes. The intrinsic value of the representative money is less than its face value. Currency notes and coins are good examples of representative money in India. Representative money may or may not be converted into full-bodied money.

**(iii) Money and Near-Money:**

Money is anything that possesses 100 per cent liquidity. Liquidity is the quality of being immediately and always exchangeable in full value for money. Near-money refers to those objects which can be held with little loss of liquidity. For example, National Savings Deposits, Building Society Deposits and other similar deposits are not money because they are not generally acceptable in paying debt; these, however, could be easily and quickly exchanged for money without any loss or with minimum loss.

**(iv) Metallic Money and Paper Money:**

This classification is based upon the content of a unit of money. Money made of some metal like gold and silver is called metallic money. On the other hand, money made of paper, such as currency notes, is called paper money.

**Metallic money is sub-classified into:**

(a) Standard Money, and

(b) Token Money.

Standard money is one whose intrinsic value is equal to its face value. It is made up of some precious metal and has free coinage. Token money is that form of money whose face value is higher than its intrinsic value. Indian rupee coin is an example of token money. Paper money comprises bank notes and government notes which circulate without difficulty.

**Paper money is classified into following parts:**

(a) Representative paper money, which is 100 per cent backed and is fully redeemable in some precious metal.

(b) Convertible paper money, which can be converted into standard coins at the option of the holder. It is not fully backed by precious metals.

(c) Inconvertible paper money, which cannot be converted into full-bodied money. Indian one rupee note is a good example of inconvertible paper money.

(d) Fiat money, which is issued by the government of the country under emergency conditions. It does not have any backing of reserve.

**(v) Credit Money:**

It is also known as bank money. This consists of deposits of the people held with the banks, which are payable on demand by the depositors. Cheques, drafts, bills of exchange, etc., are examples of credit money.

**Modern Forms of Money:**

**1. Currency:**

The currency is a country’s unit of exchange issued by their government or central bank whose value is the basis for trade. Currency includes both metallic money (coins) and paper money that is in public circulation.

**(a) Metallic Money:**

Metallic money refers to the coins which are used for small transactions. Coins are most often issued by the government. Examples of coins are 50 paise coins, and 1, 2, 5 and 10 rupee coins.

**(b) Paper Money:**

It refers to paper notes and used for large transactions. Each currency note carries the legend, ‘I promise to pay the bearer the sum of 50/100 rupees’ depending on the value of note. The currency notes are duly signed by the Governor of RBI.

Simply, the meaning of legend is that it can be converted into other notes or coins of equal value. Examples of currency notes are 1, 2, 5, 10, 20, 50, 100, 500 and 2000 rupee notes.

**2. Deposit Money or Bank Money:**

It refers to money deposited by people in the bank on the basis of which cheques can be drawn. Customers of the bank deposit coins and currency notes in the bank for safe-keeping, money transferring and also to get interest on the deposited money.

This money is recorded as credit to the account of the bank’s customer which can be withdrawn by him on his/her wish by cheques. Cheques are widely accepted these days because transfer of money through cheques is convenient.

**3. Legal Tender Money (Force Tender):**

Legal tender money is the currency which has got legal sanction or approval by the government. It means that the individual is bound to accept it in exchange for goods and services; it cannot be refused in settlement of payments of any kind.

Both coins and currency notes are legal tender. They have the backing of government. They serve as money on the fiat (order) of the government. But a person can legally refuse to accept payment through cheques because there is no guarantee that a cheque will be honored by the bank in case of insufficient deposits with it.

Currency is the most common form of legal tender. It is anything which when offered in payment extinguishes the debt. Thus, personal cheques, credit cards, debit cards and similar non-cash methods of payment are not usually legal tenders.

Coins and notes are usually defined as a legal tender. The Indian Rupee is also legal tender in Bhutan but Bhutanese Ngultrum is not legal tender in India.

**4. Near Money:**

It is a term used for those which are not cash but highly liquid assets and can easily be converted into cash on short notice such as bank deposits and treasury bills. It does not function as a medium of exchange in everyday purchases of goods and services.

**5. Electronic Money:**

Electronic money (also known as e-money, electronic cash, electronic currency, digital money, digital cash or digital currency) involves computer networks to perform financial transactions electronically. Electronic Funds Transfer (EFT) and direct deposit are examples of electronic money. The financial institutions transfer the money from one bank account to another by means of computers and communication links. A country wide computer network would monitor the credits and debits of all individuals, firms, and government as transactions take place in the economy.

It exchange funds every day without the physical movement of any paper money. This would eliminate the use of cheques and reduce the need for currency.

**6. Fiat Money:**

Fiat money is any money whose value is determined by legal means. The term fiat currency and fiat money relate to types of currency or money whose usefulness results not from any intrinsic value or guarantee that it can be converted into gold or another currency but from a government’s order (fiat) that it must be accepted as a means of payment.

A distinction between money and currency may be made here. The term ‘currency’ includes only metallic coins and paper notes which are legal tender and are in actual circulation in the country. The term ‘money’ however includes not only currency in circulation but also credit instruments. In other words, we may say that all currency is money but all money is not currency.

**Importance of Money:**

Money plays a significant role in modern economy. It has an active role in economic activities.

**Importance of money in an economy can be discussed as below:**

**1. Money and Production:**

Money helps in various ways in the process of production. Money can help producers to decide, plan, execute and manage the production activities. Moreover, the existence of money helps the producers to assess the quality and quantity of demand of a consumer.

**2. Money and Consumption:**

Money has a great importance in consumption. Consumers with the help of the money can easily decide, what they want and how much. They have a ready command over the goods and services. Moreover, they can postpone their demands, if required.

**3. Money and Distribution:**

 Money has made it possible to distribute the reward accurately and conveniently among the various factors of production. The reward can be distributed in terms of wages, rent, interest and profit in the form of money.

**4. Removal of the Difficulties of Barter:**

There were some difficulties attached to the barter system of exchange, i.e., lack of double coincidence of wants, problem of measurement of value, problem of future payment, etc. Invention of money has overcome all the difficulties of barter system. There is no need to find double coincidence of wants and value can be measured easily in terms of money.

**5. Money and Capital Formation:**

Money is essential to facilitate capital formation. Savings of people can be mobilized in the form of money and these mobilized savings can be invested in more profitable ventures. Financial institutions are the part of this process. They mobilize the savings and channelize them in productive process.

**6. Money and Public Finance:**

Public finance deals with the income and expenditure of the government. Government receives its income in the form of money through taxes and other means and make expenditures in development and administrative processes.

**7. External Trade:**

Money has facilitated trade not only inside the country but also outside countries. With the use of money, goods and services can easily and rapidly be exchanged. Though in external trade foreign currencies are used in receipts and payments but they are exchanged with the help of domestic currencies.

**8. Money and Economic Development:**

Supply of money in a country affects its economic development. If the money supply is more, then it may lead to inflationary situation in the economy which may hamper growth. Similarly, if the supply of money is lesser than what is required then there will be shortage of liquidity which will lead to lesser investments and hence lesser employment.

**Value of Money:**

The value of money means all is related with its exchange value. Apart from exchange value of money it has no other independent value. In other words, the money is always related with its exchange value. As we know the eye whether of human person or animal does not have its own light, similarly the eye can see only with either by artificial or natural light. In the same way, the value of money can be judged or perceived only when it is related with its power of purchase.

In the words of Crowther “The value of money is what is will buy.” In other words the value of money depends on its purchasing power. In this connection the other definition of Robertson may also be referred. As per this definition— **“The value of money means the amount or things in general which will be given in exchange for a unit of money.”**

In this way the value of the money depends on its purchasing power either of a commodity or other services. It is also evident that the value of money and value of commodity has opposite relationship. This means when there is an increase in the value of commodity, the value of money will decrease.

**The above discussion may be made clear by an example:**

Suppose in a particular situation by one unit of money 5 oranges or 1 kg of sugar can be purchased. This means that the one unit of money is equivalent to 5 oranges or one kg of sugar. Now the value of any or all things take and increasing position then the value of money will certainly decrease.

In other words, if 1 kg of sugar was available for Rs. 2 only where when the value of sugar is available for Rs. 3, that it can be presumed that the initial power of Rs. 2 did not remain so much that 1 kg of sugar can be purchased with old value. This means that in case of increase the value of money will be to the diminishing power of purchase. So, it is proved that there is opposite relationship between the power of money and the com­modity.

Now the significant question arise that when the differences between the value of commodity and the value of services appear different, then in what way the base value can be judged because of the fact the difference between the retail price and the wholesale price.

**The solution of such problem has been found out on the following three consecutions:**

**(1) Wholesale Value:**

Whatever value becomes prevalent in the wholesale market is usually taken as wholesale value. So, the wholesale value is easy to be found out because the value of money usually is displayed on this very base. This is called the wholesale value of the money.

**(2) Retail Value:**

The value prevalent in the retail market is called as retail value. But the retail value may be perceived separately on different places. This means the retail value will remain constant. The calculation of the retail value is always different from one place to another and as such the base of retail price is difficult in comparison to wholesale price.

**(3) Labour Value:**

In order to make payment the money among the labourers the value prevalent in such a market is usually called the value of labour. Now the value of labour will never be constant and it will also vary from place to place. So, it cannot be accepted as bases of value.

**Evils of Money:**

Money is not an unmixed blessing. It is said that money is a good servant but a bad master.

**Several evils of money are said to be:**

**(i) Economic Instability:** Several economists are of the opinion that money is responsible for economic instability in capitalist economies. In the absence of money, saving was equal to investment. Those who saved also invested. But in a monetized economy, saving is done by certain people and investment by some other people. Hence, saving and investment need not be equal. When saving in an economy exceeds investment, then national income, output and employment decrease and economy falls into depression.

On the other hand, when investment exceeds saving, then national income, output and employment increase and that leads to prosperity. But if the process of money creation and investment continues beyond the point of full employment, inflationary pressures will be created. Thus inequality between saving and investment are known to be main cause of economic fluctuations.

The main evil of money lies in its liability of being over-issued in the case of inconvertible paper money. The over-issue of money may lead to hyper-inflation. Excessive rise in prices brings suffering to the consuming public and fixed income earners. It encourages speculation and inhibits productive enterprises. It adversely affects distribution of income and wealth in the community so that the gulf between the rich and poor increases.

**(ii) Economic Inequalities:**

Money is a very convenience tool for accumulating wealth and of the exploitation of the poor by the rich. It has created an increasing gulf between the ‘haves’ and the ‘have-nots. The misery and degradation of the poor is, thus, in no small measure due to the existence of money.

**(iii) Moral Depravity:**

Money has weakened the moral fibre of man. The evils to be found in the affluent society are only too obvious. The rich monopolizes all the social evils like corruption, the wine and the woman. In this case, money has proved to be a soul-killing weapon.

**(iv) Medium of Exploitation:**

Prominent socialist like Marx and Lenin condemned money but it helps the rich to exploit the poor. When the communists came to power in Russia, they tried to abolish money. But they soon realized that to run a modern economy without money was impossible. All economic activity has to be based on monetary calculations. Accordingly, money is fully and firmly established in all Socialists States. Money performs several functions like facilitating optimum allocation of the country’s resources, functions as a medium of exchange and a measure of value, guides economic activity and is essential for facilitating distribution of national income.

**Conclusion :**

Money is historically an emergent market phenomenon establishing a commodity money, but nearly all contemporary money systems are based on fiat money. Fiat money, like any check or note of debt, is without use value as a physical commodity. It derives its value by being declared by a government to be legal tender; that is, it must be accepted as a form of payment within the boundaries of the country, for "all debts, public and private".

The money supply of a country consists of currency (banknotes and coins) and, depending on the particular definition used, one or more types of bank money (the balances held in checking accounts, savings accounts, and other types of bank accounts). Bank money, which consists only of records (mostly computerized in modern banking), forms by far the largest part of broad money in developed countries.