

Money: Definition, Types, Functions, Characteristics, Importance and Evils

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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).

Definitions of Money:

Money is one such concept which is very difficult to be restricted to some well-defined set of words. 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.

"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.