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.