Money: its functions and characteristics

Money: anything that is generally acceptable as a means of payment.

Economists also talk about **near money**. This is a term that is used to denote non-cash assets that can be quickly and easily turned into cash. Such assets include foreign currencies, savings accounts, bonds and certificates of deposits. As assets, they contribute to the **liquidity** of banks by providing a supply of cash if this is needed to meet their **liabilities** to depositors.

Bearing the above in mind, economists recognise the following **four** essential functions of money:

1. **A medium of exchange**: Money is the ‘medium’, or form, that buyers use for purchases; sellers are willing to accept this medium in exchange for these purchases. By handing over money physically, or by transferring money electronically through the banking system, this is a common, automatic acceptance of money fulfilling this function.

2. **A unit of account:** Prices are quoted in terms of common monetary units. For instance, in the USA dollars and cents are used, while in Pakistan rupees and paise are used. This function is of relevance for current and future transactions since it is quite clear just how much money is required for a particular transaction. It also allows different values to be added, measured and compared. Where money is borrowed, then the lender usually requires interest to be paid for this privilege. The 'account' aspect allows the sum of money to be recorded and for different values to be added or compared.

3. **A standard for deferred payment:** Not all payments we make are immediate. Some household bills are paid monthly, others may be paid annually. Following on from money as a unit of account, payments can be made in the future once terms have been agreed between the parties involved.

4. **A store of wealth**: Money can be held or ‘stored’ for a period of time, usually with a bank or other financial institution, before it is used. This important function means that money is a measure of value over time. Where this value is accumulated, then it represents a source of wealth to its owner. In 2011, the two richest people in the world were both from the USA: Warren Buffett and Bill Gates. Their personal wealth was in a wide range of assets, not just in bank accounts. Money was the common basis on which their wealth was estimated.

Capital consumption: the capital required to replace that which is worn out.

Investment: the creation of capital goods.

Developing economy: one that has a low income per head.

Money: anything that is generally acceptable as a means of payment.

Near money: non-cash assets that can be quickly turned into cash.

Liquidity: the extent to which there is an adequate supply of assets that can be turned into cash.

Liabilities: debt obligations.