

## MONEY AND ITS FUNCTIONS

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Even if you had all the other resources available to you, it still takes money to start a business.

Although the crucial feature of money is its acceptance as the means of payment or medium of exchange, money has other functions. It serves as a standard of value, a unit of account, a store of value and a standard of deferred payment.

Money, the medium of exchange, is used in one-half of almost exchange. We accept money not to consume it directly but because it can subsequently be used to pay things we do wish to consume. Money is the medium through, which people exchange goods and services.

Money can also serve as a standard of value. Society considers it convenient to use a monetary unit to determine relative costs of different goods and services. In this function money appears as the unit of account, is the unit in which prices are quoted and accounts are kept. In Russia prices are quoted in rubles; in Britain, in pounds sterling; in the USA, in US dollars; in France, in French francs. It is usually convenient to use the units in which the medium of exchange is measured as the unit of account as well.

Money is a store of value because it can be used to make purchases in the future. To be accepted in exchange, money has to be a store of value. Nobody would accept money as payment for goods supplied today if the money was going to be worthless when they tried to buy goods with it tomorrow. But money is neither the only nor necessarily the best store of value. Houses, stamp collections, and interest-bearing bank accounts all serve as stores of value. Since money pays no interest and its real purchasing power is eroded by inflation, there are almost certainly better ways to store value. Finally, money serves as a standard of deferred payment or a unit of account over time.

Finally, money serves as a standard of deferred payment or a unit of account over time. When you borrow, the amount to be repaid next year is measured in some other hard currency. Although convenient, this is not an essential function of money.

Thus the key feature of money is its use as a medium of exchange. For this, it must act as a store of value as well. And it is usually, though not invariably, convenient to make money the unit of account and standard of deferred payment as well.