

### 5. Problem of Storage

Another problem of barter system is that a person must store a large volume of his own good in order to exchange for his/her desired goods with others on day to day basis. Take the example of a farmer who has produced wheat. Obviously, he will use some amount of wheat for his own consumption and keep some amount to get other necessary items by trading with others. If he wants furniture, then he will go to a carpenter who is willing to trade furniture in return of his wheat. Similarly, if he wants cloth, then he has to trade with a weaver who is ready to give cloth by receiving wheat and so on. So the farmer must construct a warehouse first to keep a stock of his wheat in order to carry out the transactions at the time of need for his desired good. But constructing and maintaining a warehouse was itself a very difficult task in early days of civilization.

### 6. Loss of Value

Finally, a major problem of barter system is that, a good loses its original quality and value if it is stored for a long period. Many goods, such as salt, vegetables etc., are perishable. Hence, goods were never accepted for trading in future because they could not be used as store of value. This also implies that no good could be used for the purpose of lending and borrowing.

Due to above problems, the barter system could not continue for long. As human civilization progressed, people realized that there has to be some common medium of exchange which can be easily carried, stored, and used to express the value of a good. So money came into being. Hence the need for money arose due to the failure of barter system.



### INTEXT QUESTIONS 28.1

1. Under barter system a good was exchanged for coins. (True or False)
2. Simran wants to have 6 pencils in exchange of a note book from Kavita. But Kavita is not agreeing to this condition. The problem may be related to lack of double coincidence of wants. (True or False)
3. Ahmed took 10 kg of rice from Asghar last year as loan. Now he is willing to return the same. But Asghar is not accepting it. Give one possible reason for it.

### 28.2 MEANING OF MONEY

Money has been defined differently by different economists. But the most acceptable definition of money can be stated in terms of all the functions of money.

**Money is anything which is generally accepted as a means of exchange, a measure and store of value and which also acts as standard of deferred payments.**



Notes



Notes

## 28.3 FUNCTIONS OF MONEY

The use of money has removed the drawbacks of barter system. Broadly speaking the functions of money may be classified into *primary (basic)* and *secondary* functions.

### Primary or Basic Functions:

#### (i) Medium of Exchange

Money acts as a medium of exchange of all goods and services. The use of money has greatly facilitated process of exchange by dividing it into two parts i.e. sale and purchase. It has removed the difficulty of double coincidence of wants found under the barter system. Therefore, in modern world we hardly find any evidence of exchange of goods and services without the use of money.

**Example:** You pay ₹ 10 to buy a pen. The seller receives ₹ 10 from you by selling the pen. So a pen is exchanged for ₹ 10.

#### (ii) Measure of Value

Money helps to measure value of goods and services in terms of price. The use of money has completely removed the confusion regarding value of one good/service vis-a-vis the other. This function has greatly facilitated the process of exchange of different goods and services. The value of a good is determined by multiplying its price with the quantity purchased. Since the price is expressed in monetary units, the value of a good is also expressed in monetary terms.

**Example:** Let price of rice be ₹ 20 per Kilogram. One bag full of rice weighs 25 Kilograms. Then the value of the bag of rice is ₹  $20 \times 25 = ₹ 500$

### Secondary Functions:

#### (i) Store of Value or Wealth

Money is the most convenient and economical means to store wealth which does not lose its value so quickly over time. Thus, it is the most accepted means to store wealth or value. As medium of exchange you can pay money to buy goods. This means if you have money, you have the power to purchase a good or a service. So money has purchasing power. The value of the good is contained in that purchasing power. Hence value of good is indirectly stored in money, you hold. Similarly, as a seller of good, you receive the money which means value of good you sold, comes back to you through money.

**Example:** Harpreet sells furniture to a buyer for ₹ 2500. This means a value of ₹ 2500 was exchanged. The buyer, who purchased the furniture, has the