

# FORMS OF MONEY

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# 1. PROPER MONEY

- ⦿ Proper Money or the actual money is the money which is in circulation in a country.
- ⦿ It is the medium of exchange and means of payment
- ⦿ For example- In India the Rupee note and coins are the actual money .
- ⦿ Because different types of transactions and payments can be made through them.

## 2. ACCOUNT MONEY

- ⦿ Account money is that in which accounts are maintained.
- ⦿ Prices of goods and services, general purchasing power, debts etc all expressed in terms of money of account.
- ⦿ Normallu the money proper and the money of account are the same. For ex- Indian rupee acts both as the medium of exchange and the money of account.

- ⦿ But the Indian rupee as the money of account has remained the same, but the actual indian rupee has been experiencing change in its weight, size and content from time to time.
- ⦿ After the 1<sup>st</sup> world war, in Germany the money proper continued to be the German Mark, but the money of account changed to the American Dollar because of its stable value as compared to the depreciating Mark.

### 3. LEGAL TENDER MOENY

- ◉ On the basis of acceptability, money has been classified into legal tender money and optional money.
- ◉ Legal tender money is enforced by law. No one can refuse to accept it as a means of payment.
- ◉ Legal tender money may be of two types-
- ◉ A) Limited legal tender money
- ◉ B) Unlimited legal tender money

## A) LIMITED LEGAL TENDER MONEY

- ◉ Limited legal tender money is accepted as legal tender only upto a certain limit.
- ◉ For ex- In India the coins of 25, 50 are legal tender only upto a sum of Rs.25.
- ◉ That means upto Rs.25 a person cannot refuse a payment through these small coins and beyond Rs. 25 he is free to refuse these coins.

## B) UNLIMITED LEGAL TENDER MONEY

- ◉ Unlimited legal tender money is that money which has to be accepted as a medium of payment upto any amount.
- ◉ For ex- In India, 1 rupee, 2 rupee, 5 rupee coins and currency notes of all denominations are unlimited legal tender

## 4. OPTIONAL MONEY

- ◉ Optional money is that money which may or may not be accepted as a means of payment.
- ◉ It has no legal sanction.
- ◉ Different credit instruments like cheques, bank drafts etc are the example of optional money.
- ◉ No one can be forced to accept them.

## 5. METALLIC MONEY

- ⦿ The money made of metal is called metallic money.
- ⦿ It refers to coins made of certain metals eg- gold, silver, copper, nickel etc.
- ⦿ A coin is a piece of metal of a specific size, shape, weight and fineness whose value is certified by the Govt.
- ⦿ Minting coins is the monopoly of the state.

## 6. FULL BODIED MONEY OR STANDARD MONEY

- ⦿ Any money whose face value is equal to its intrinsic value is called standard money or full bodied money.
- ⦿ Face value = Intrinsic value
- ⦿ The exchange value of the coin = The worth of the metallic content of money.
- ⦿ Standard coins are generally made of gold and silver and the monetary systems using them are called gold standard and silver standard.

## 7. TOKEN MONEY

- ◉ The money whose face value is more than its intrinsic value is called token money.
- ◉ Token coins are generally made of cheaper metals like copper, nickel etc and mostly represent lower denominations.
- ◉ It is more economical because it does not use valuable metals.
- ◉ The supply of token money is more elastic.

## 8. PAPER MONEY

- The money made of paper is called paper money. It consists of currency notes issued by the Govt or the central bank of the country.
- There are two types of paper money
  - A) Convertible paper money
  - B) Inconvertible paper money

## A) CONVERTIBLE PAPER MONEY

- ◉ The paper money which is convertible into standard coins is called convertible paper money.
- ◉ The paper money is backed by gold and silver reserves.
- ◉ The reserves comprise of gold, silver and standard coins, approved securities and foreign exchange.

## B) INCONVERTIBLE PAPER MONEY

- The paper money which is not convertible into standard coins or valuable metals is called inconvertible paper money.
- Under this system the monetary authority maintains no metallic reserves against paper money.
- It also gives no guarantee to convert the paper currency into gold and silver.
- It economises the use of valuable metals.
- It is elastic in the sense that the supply can be changed according to the needs of the economy.

## 9. ACTUAL MONEY

- Actual money is the money which is actually in circulation in a country.
- It includes coins, currency notes, cheques, drafts etc.
- India- Rupee
- America- Dollar
- Germany- Mark
- Japan - Yen
- England - Pound
- Europe - Euro etc

## 10. NEAR MONEY

- The thing which performs the functions of money, but not the real money is called near money.
- The bills of exchange, treasury bills, promissory notes etc called near money.

# 11. CREDIT MONEY

- ◉ In modern economics, with the development of banking activity credit money is being widely used.
- ◉ The commercial banks are creating the credit money.
- ◉ Demand drafts, cheques are accepted as a means of payments
- ◉ A cheque by itself is not money , it is only a credit instrument which performs the functions of money.
- ◉ That is why credit money is regarded as near money.

# STATIC AND DYNAMIC FUNCTIONS

- ◉ Paul Einzing has classified the functions of money into two broad categories.
- ◉ 1. Static functions- In the static functions money has a passive role. Here money is a technical tool to ensure a smooth working of the economic system.
- ◉ Money does not have a causative influence on the economic activities.

- The traditional functions of money  
ie. Medium of exchange, measure of value, standard of deferred payments, store of value and transfer of value all are the static functions of money.
- Static functions are the basis for dynamic functions.

## 2. DYNAMIC FUNCTIONS

- The dynamic functions are those by which money actively influences the economic system through its impact on price level, interest rates, volume of production, distribution of wealth and income
- Here money tends to influence the economic system.
- Effect on price level- If money supply increases it leads to inflation and visa versa.

⦿ Effects on interest rates- Money has great influence on the economic system by changing interest rates.



⦿ Effect on production- If money supply increases, demand and production also increases.

- ◉ Effects on utilisation of resources- ensures efficient and full utilisation of resources- production - standard of living increases.
- ◉ Effects on Govt expenditure- Money influences on government expenditure. Deficit financing helps to spend more than its revenue.