**The History and Functions of Money**

Today, almost every society has a money economy based on coins and paper notes. However it has not always been true. In primitive societies a system of barter was used. Barter was a system of direct exchange of goods. For example, somebody could exchange a sheep for anything in the marketplace that they considered to be of value. Barter, however, was a very unsatisfactory system because people’s needs seldom coincided. People needed a more practical system and various money systems developed based on goods which a society recognized as having value. Cattle, grain, teeth, shells, feathers, skulls, salt, elephant tusks and tobacco have all been used. Later, precious metals took over.

A coin is a piece of metal, usually disc-shaped, which has lettering, designs or numbers showing its value. Most governments now issue paper money in the form of notes. Paper money is easier to handle and much more convenient in the modern world. Cheques, bankers’ cards, and credit cards are being used more and more often and it’s possible to imagine a world where money in the form of coins and paper currency will no longer be used. Even today, in the US, many places – especially filling stations – will not accept cash at night for security reasons.

Functions of Money.

Money has three basic functions. It serves as a medium of exchange, a standard of value and a store of value. Anything that serves any of these three functions is a type of money.

Medium of exchange. The single most important use of money is as a medium of exchange. A medium of exchange is any item that sellers will accept in payment for goods or services. As a medium of exchange, money assists in the buying and selling of goods and services because buyers know that sellers will accept money in payment for products or services.

Standard of value. The second use of money is as a standard of value.

That is, money provides people with a way to measure the relative value of goods or services by comparing the prices of products. In this way, people can judge the relative worth of different items such as a television and a bicycle. They can also judge the relative values of two different models or brands of the same type of item by comparing their prices.

Money’s function as a standard of value is also important to record keeping.

Businesses need to figure profits and losses. Similarly, governments must be able to figure tax receipts and the cost of expenditures. Money, because it helps provide some uniformity to these accounting tasks, is also called a unit of accounting.

Store of value. The third function or role of money is that it can be saved or stored for later use. For money to serve as a store of value, two conditions must be met. First, the money must be nonperishable. That is, it cannot rot or otherwise deteriorate while being saved. Second, it must keep its value over time. In other words, the purchasing power of the money must be relatively constant. If both of these conditions are met, many people will be hesitant about saving money today that will be worth little or nothing tomorrow.