

2. MONEY

Q.1 Define Barter System. What are difficulties in Barter system? (4m)

(A) Introduction :- In olden times people have limited wants. People used to exchange goods against goods. It was Direct Exchange of goods and services.

(B) Meaning :- "The system of exchanging goods and services against goods and services directly is known as Barter System"

(C) Difficulties of Barter System :-

1. Lack of Double-coincidence of wants :- Most common problem faced during barter system is willingness to accept each other's products. If wants of two persons do not match with each other then Direct-Exchange do not take place.

(e.g) Person 'A' has surplus rice and he wants to exchange with surplus vegetables. Person 'B' has surplus vegetables but he wants to exchange with wheat. In this case exchange between 'A' and 'B' would not take place due to lack of double co-incidence of wants

2. Lack of common measure of value :- In Barter system, there was no common measure used for determining the value of goods and services

(e.g) It was difficult to compare 2 Kg of Rice with 2 litres of milk.

It create a great confusion in exchange of goods and services

3] Difficulties in storage of Goods:- It is necessary to store goods for future consumption. During Barter System most of the goods were perishable which cannot be stored for long period.

(e.g) Fruits, Vegetables, eggs, fish, milk etc

4] Difficulties in Exchange of Indivisible Goods:-

During Barter system, it was difficult to deal with indivisible goods. Indivisible goods cannot be divided into small parts.

(e.g) Cows, sheeps, horse, goat etc

5] Difficulties in Deferred Payments:- "Deferred Payments means future payments or contract payments" During Barter system, Deferred payments were difficult to decide.

(e.g) Rent on Land, wages to labour, Repayment of loan etc

6] No Common Medium of Exchange:- Nowadays

Money is used as common medium of exchange for buying and selling of various goods and services. But during barter system, no common medium of exchange was available.

These are various difficulties faced during Barter system.

Q:2. There are no difficulties in barter system.

Disagree. There are many difficulties faced during Barter system.

(Refer - Q:1)

Q:3 Explain Various types of money?

(A) Introduction :- Money plays a very important role in the economic system. Money is the most important discoveries of mankind. In every economy money enjoys a key position.

(B) Meaning :-

1] According to Walker - "Money is what money does"

2] According to Prof. Seligman - "Money is a thing that possess general acceptability"

3] According to Prof. Coowther - "Money is anything that is generally acceptable as a means of Exchange and at the same time act as a measure and a store of value."

(C) Types of Money :-

1. Animal Money :- In Olden days - 'Animal Money' was used as means of Exchange. (e.g) Cow, sheep, goat etc. But due to their indivisible in nature, Commodity money came into existence.

2. Commodity Money :- In Olden days Commodities like - animal skin, grains, feathers, tust, rare stones etc were used as medium of Exchange. But due to storage problem Metallic money came into existence.

3. Metallic Money :- "Money made up of some metals is called Metallic Money".

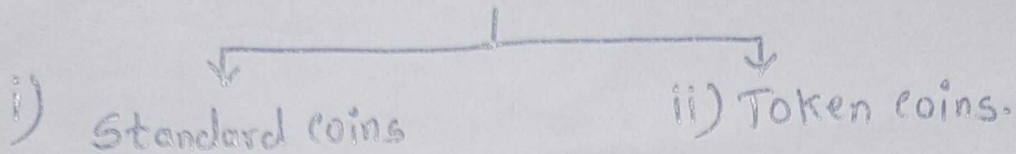
It is made up of gold, Silver, Copper, nickel etc.

But due to scarcity of Precious metals, Metallic Coins came into existence.

4. Metallic Coins :- In ancient times, rulers of various Kingdoms used metallic coins with their seals on them.

Nowadays, Government has right of minting coins.

Metallic coins



i) Standard or full bodied coins :-

“Standard coins are those whose Face Value is equal to its Intrinsic (Internal) Value”

These coins are made out of Precious metals like gold, silver etc.

Standard coins were used for some days during the British period.

ii) Token Coins :-

“Token coins are those whose Face Value is higher to its Intrinsic Value”

Token coins are used to handle the transactions of smaller values.

(e.g) ₹ 1, ₹ 5, ₹ 10 etc.

These coins are made of cheaper metals like aluminum, nickel, steel etc.

5. Paper Money :- Paper money consist of Paper Currency issued by Government and Central Bank of Country (RBI).

In India, one rupee note and all coins are issued by Government of India.

Currency notes of higher denominations are issued by the Central Bank (RBI).

Due to inconvenience in handling and risk of storing paper money gave rise to Bank money.

6. Bank money / Credit Money :-

" Bank money means the deposits which are in the form of cash saved by people "

Bank money is used to create credit money.

Bank money can be easily withdrawn and transferable through various instruments like -

Cheque, demand drafts etc.

Nowadays credit money plays an important role in economic development.

Due to growing global economy and Cashless transaction, plastic money came into existence.

7. Plastic Money :- Plastic money is very easy and simple to use due to modern technology.

Debit cards and Credit cards are best examples of plastic money.

But Innovation in Smart transactions led to introduction of Electronic money.

8] Electronic Money :- Electronic money / E-money is a monetary value that is stored and transferred electronically with the help of - mobile phones, tablet, Computes, Smart cards etc. This money is used for buying and selling goods and services in the world. It is backed by Central Bank (RBI)

(e.g) Digital wallets.

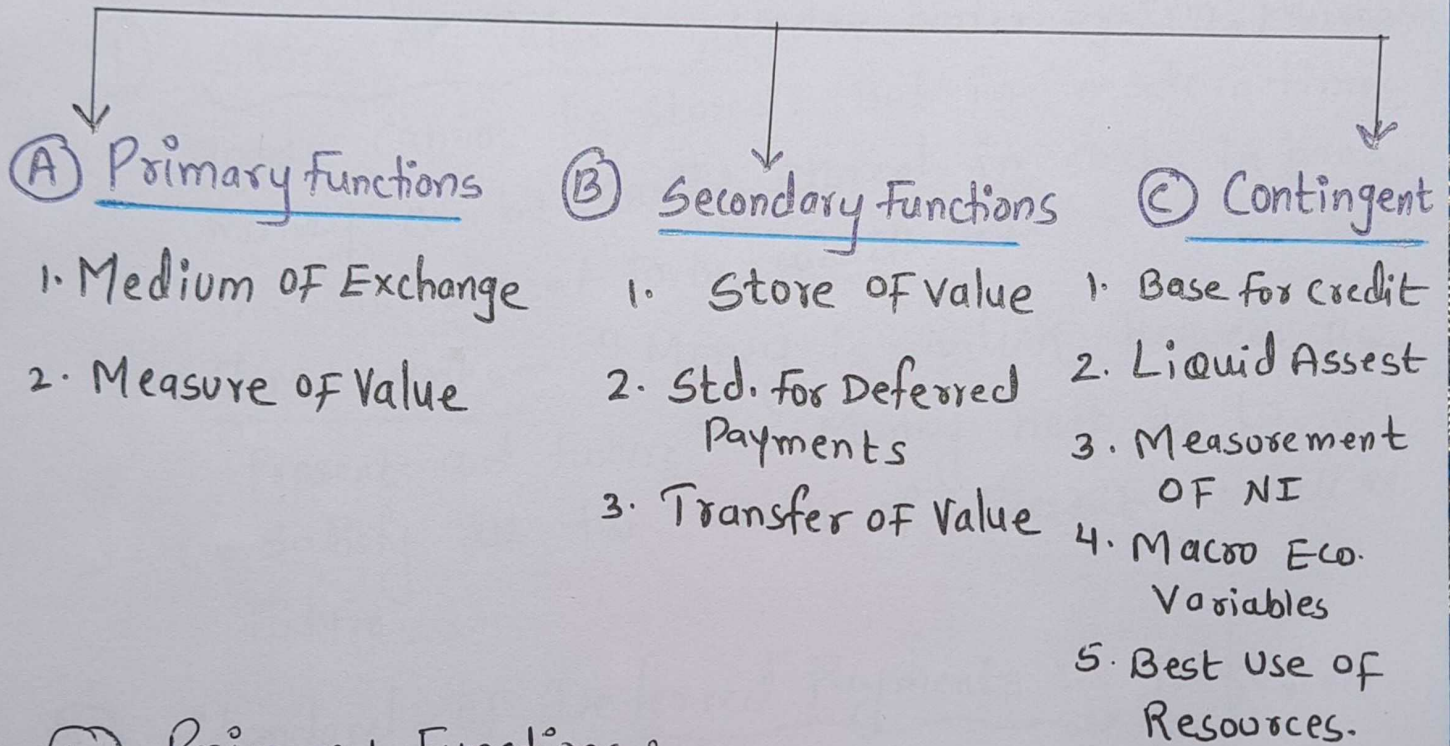
Q.4 Money can be sent anywhere through electronic means.

Agree. Money can be easily sent anywhere through electronic means.

Refer - Q:3 - Point-8

Q.5 Explain Various Functions of Money?

- (A) Introduction } Same from Q.3
(B) Meaning }
(C) Functions of Money



(A) Primary Functions :-

1. Medium of Exchange :- Buying and selling of goods and services becomes easy with introduction of money. It is used as Medium of Exchange for purchasing various goods and services. Payments of all the transaction can be easily settled with the help of money.
2. Measure of Value :- Due to introduction of money, value of all goods and services can be measured in terms of money. Money enables to compare prices of commodities. Different countries are using different Currency.

to determine Price of Commodities.

(e.g) Rupee in India, Dollar in U.S.A, Pound in U.K, Yen in Japan etc.

(B) Secondary Functions :-

(1) Store of Value :- Under barter system, perishable goods cannot be stored. But in modern times, money can be easily stored in cash, in bank, in investment form, wealth etc.

J.M. Keynes - "Money is a link between the Present and Future" Money help us to satisfy all the wants of Present as well as Future.

(2) Standard of Deferred Payments :- Deferred Payments means the future Payments or Contract Payments. Now a days Money helps in borrowing and lending credit. Credit has become the life line of modern economy. Money serves as link between Present and Future. Money provide strong base for Credit System.

(3) Transfer of Value :- Money can be easily transfer from one place to another and from one Person to other.

(e.g) Assests like - Land and Building Plots, Shops agricultural land etc. can be easily bought and sold at one place to another with help of money.

Q:6. Many tasks are accomplished by Money.

Agree. Money can perform many functions in economy.

Refer - Q:5

Q:7 Explain Various Qualities of Money.

(A) Introduction } same from Q:2

(B) Meaning }

(C) Qualities of Money :-

1. General Acceptability :- The commodity which is used as money must have General Acceptability without any hesitation.

2. Durability :- Money should be durable in nature. (e.g) Metallic coins are more durable than paper money.

3. Cognizability :- Money must be easily recognised. It should have distinct marks to avoid confusion by receiving person.

4. Homogeneity :- Paper currency of same denomination must have Uniformity in - Paper, design, colour, size etc.

5. Divisibility :- A good money can be easily divisible into smaller denomination.

6) Stability of Value :- Money as a medium of Exchange must have stable value. Money serves as a measure of value to exchange goods and services.

7) Portability :- A good money can be easy to carry from one place to another.

(e.g) Currency notes are easily portable.

8) Attractive :- Good money should be attractive with suitable size, colour, design etc.

Q:8 There are many good qualities found in modern currency.

Agree. A good money possess many good qualities.

Refer - Q: 7

Q- Objectives-2.

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Q-9 Complete the Correlation :

1. Primary function of money : Medium of Exchange ::
Secondary function : Transfer of Value.
2. Contingent functions : Basis of Credit :: Secondary
Functions of money : standard of deferred payments.
3. Commodity money : Shells :: Plastic Money :
Credit cards.
4. Divisibility : Smaller denomination :: Portability
Easy to carry from one place to another.
5. Barter System : Goods :: Modern economy : Money

Q-10 Suggest an economic term for the given statements :

1. The act of exchanging goods for goods Barter System
2. Provision for making payments in future Deferred

Payments.

3. System that makes use of currency for facilitating payments Electronic money / Digital System.
4. Credit instrument through which bank deposits are transferable - Cheque / Demand Draft.
5. Monetary value stored and transferred electronically by means of computer hard drive or servers -
Electronic money.
6. Money not accounted for in the bank and not disclosed to the government - Black money.

Q-11 Choose the correct option :-

1. Arrange in the order of evolution of money.

- a) Metallic money.
- b) Animal money.
- c) Metallic coins
- d) Commodity money

Ans: b, d, a, c

2. Arrange in the order of evolution of money.

- a) Plastic money.
- b) Paper money.
- c) Electronic money.
- d) Credit money

Ans: b, d, a, c

Q - Identify and explain the concepts from the given illustrations

1. Vasantsheth provides coal from his shop to farmers in exchange for foodgrains

Ans: Barter System. Explanation - Q:1 - 3 Point

2. Babanrao deposits his money in a nationalized bank.

Ans: Bank Money. Explanation - Q:3 - Point-6

3. Charu used her debit card to purchase a shirt for her younger brother.

Ans: Plastic Money. Explanation - Q:3 Point-7

4. Malathi purchased a house through an agent. The agent accepted the commission amount in cash but did not issue a receipt to her.

Ans: Black money.

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Explanation :- Black money is any money which is received in cash but not recorded in books of accounts. Black money is illegal money on which tax is not paid.

5. To prevent misuse/fraudulent use of the national currency, a note ban is imposed on its use at certain times.

Ans:- Demonetization.

Explanation :- To control black money, government adopt demonetization system. It control social and political instability.

(e.g) On 8th November, 2016, Our Prime Minister P. Narendra Modi announced demonetization for ₹ 500 and ₹ 1000 notes as invalid.