

## Money-Role of Money In Economic System

### Portable

It should be divisible into small quantities so that people appreciate its original use value - highly enough that a worthwhile quantity of the good can be conveniently carried or transported. An indivisible good, immovable good, or good of low original use-value can create issues. Trying to use a non-portable good as money could produce transaction costs of either physically transporting large quantities of the low value good or defining practical, transferable ownership of an indivisible or immobile object.

### Recognizable

The authenticity and quantity of the good should be readily ascertainable to the users so that they can easily agree to the terms of an exchange. Trying to use a non-recognizable good as money produces transaction costs of agreement on the authenticity and quantity of the goods by all parties to an exchange.

### Stable

The value that people place on a good in terms of the other goods that they are willing to trade should be relatively constant or increasing over time. A [good](#) whose value varies widely up and down over time, or consistently loses value over time is less suitable. Trying to use a non-stable good as money produces transaction costs of repeatedly revaluing the good in each successive transaction and the risk that the exchange value of the good might drop below its other direct use-value or not be useful at all, in which case it will no longer circulate as money.

## KEY TAKEAWAYS

- Money is a generally accepted, recognized, and centralized medium of exchange in an economy that is used to facilitate transactional trade for goods and services.
- The use of money eliminates issues from the double coincidence of wants that can occur in bartering.
- Economically, each government has its own money system, defined and monitored by a central authority.
- Cryptocurrencies represent a new form of money, with international exchange opportunities.

## Functions of Money

As stated above, money primarily functions as a medium of exchange. However, it also has developed secondary functions that derive from its use as a medium of exchange. These other functions include: 1) a unit of account, 2) a store of value, and 3) a standard of deferred payment.

## Unit of Account

Due to its use as a [medium of exchange](#) for both buying and selling and its use to assign prices to all kinds of other goods and services, money can be used to keep track of the money gained or lost across multiple transactions, and to compare money values of various combinations of different quantities of different goods and services mathematically. This makes things such as accounting for profit and loss of a business, balancing a budget, or valuing the total assets of a company all possible.