

# ***VALUE OF MONEY***

# VALUE OF MONEY

*Cont.....*

- The conception of value of money is relative as it always express the relationship between a given unit of money and the amount of goods and services that can be exchanged for it. But this conception of value of money is not easy to handle in actual practice. Since money buys everything that has a price , we will do well to express the value of money in terms of all commodity . But the difficulty here is that if we express the value of money , in terms of all commodities , we will have an infinite number of values of money since there are infinite commodities and infinite prices in the world. Hence, this method of expressing the value of money should be ruled out as impracticable.



# VALUE OF MONEY

- Sometimes, the value of money is sought to be measured in terms of “the general price level.” The general level of prices is based on the price level of all commodities taken together . Symbolically,

- $$V_m = \frac{1}{P};$$

- Here,  $V_m$  stands for the value of money.
- $P$  stands for the price level.
- Thus, the value of money is defined and measured in relation to the general level of prices. But the value of money expressed in terms of the general level of prices has little meaning for an individual who is interested only in a certain collection of goods and services which are of use of him at a particular moment of time. He would like the value of money to be expressed in terms of his collection of goods and services. The value of money is , thus, not the same to every individual .

# *VALUE OF MONEY*

- According to Prof. Crowther, "The value of money without qualification is almost meaningless'. An exact definition of the value of money, according to him, is a somewhat difficult affair. There could be many values of money depending upon the use to which money is put. He has laid down three standards of value of money:
- **1. The Wholesale Standard**
- According to this standard the value of money is expressed in terms of the prices of all those commodities which are traded in wholesale market. Such a value is called the wholesale value of money. The wholesale standard is generally preferred because wholesale prices are regularly quoted in the market and easily available in the press.

# ***VALUE OF MONEY***

- **2. The Retail or Consumption Standard**
- According to this standard ,the value of money is expressed in terms of prices of those goods and services which are ordinarily bought by an average family for the purpose of consumption. Since the average family buys these goods and services in the retail market , the value of money so expressed is called the retail value of money. According to this standard two difficulties arise in expressing the value of money . Firstly ,it is rather difficult to ascertain what goods and services are bought by an average family with its income. Consumption pattern differ from family to family depending upon a number of factors , such as, income, tastes , customs,etc.Secondly, even if we succeed drawing up a list of the goods and services consumed by the average family , it would be difficult to ascertain the accurate prices of such goods and services, since there is considerable variation of prices in the retail market.

# *VALUE OF MONEY*

- **3.The Labour Standard**

- According to this standard , The value of money is expressed in terms of labour. It is generally calculated from the rate of wages payable to labour for a day's work. The value of money so expressed is called the labour value of money. Several difficulties arise when we express the value of money according to this standard . Firstly, labour is not homogeneous . Secondly, even in the same category of labour , there are difference of skill, efficiency and regularity of work.
- The standard discussed above do not solve the problem in its entirety. They are intended merely to reduce the complexity involved in defining the value of money.

# *VALUE OF MONEY*

Formulating a comprehensive definition of the value of money is virtually an impossible task. People are not much interested in the movements of aggregate price level. It is the movements of sectional price level which interest them more. For example, the consumer's value of money is affected by changes in the prices of consumer goods that they buy. The consumer are, thus, interested in the retail value of money. The traders and merchants, likewise, are interested in the wholesale value of money. The entrepreneurs have their interest in the labour value of money. An aggregate concept of the value of money is an impossible task. Thus, the absolute value of money can not be measured. It can be measured the changes in the value of money over a period of time rather than its absolute value at a given moment of time. We wish to know whether the purchasing power of money has risen or fallen over a period of time, and if so, to what extent.

To be continued.....