

**SUBJECT = ME & IB**

**UNIT I – MONEY (PART – IV)**

**IMPORTANCE OF MONEY IN CAPITALISM:-**

Today money is considered one of the outstanding inventions of the entire history of mankind. The introduction of money has eliminated all the difficulties of barter system in which goods have to be exchanged for goods. Money facilitates trade by acting as a medium of exchange and standard of value. It has made easy to save wealth for future. It has played a significant role for the specialization in business through division of labour. Although money itself creates nothing, but it is very helpful in the process of production, consumption and exchange.

Capitalist economy is that economy in which means of production are owned, controlled and regulated by private organisation. The capitalist economy also recognizes freedom of choice, freedom of contract and freedom of enterprise. But before deciding to use property or means of production in a particular use or industry, the owner looks for guidance from the Price mechanism. The capitalist economy cannot function without the price mechanism. And the price mechanism, by its nature, has to be expressed in terms of money.

**The significance of money in capitalist economy can be explained as follows:**

- i. The most significant role of money lies in the functioning of the price mechanism. The central problem of a capitalist economy as to what, how much and for whom to produce are solved through the price mechanism.
- ii. Under Capitalist economy, the consumer is the king who buys only those commodities which give him the maximum satisfaction with a given money income. When the price of each commodity expressed in money equals its marginal utility, the consumer gets maximum satisfaction. Thus,

money enables a consumer to make a rational choice out of the various commodities he wants to buy with his given money income.

- iii. Money has great importance to producers especially in capitalist economy characterized by large- scale production and division of labour. It has enabled the producer to organize his production in a most economical manner and spared him from the disadvantages of barter system.
- iv. Producers and businessmen are concerned, while planning their future production, with the cost of production (to purchase various goods) and selling prices along with profits- all are calculated in terms of money.
- v. The price- mechanism (expressed in money) also determines the share of remuneration of factors of production. The rewards of factors of production (wages, salaries, interest, rent and profits, etc.) are determined in monetary terms as per the forces of demand for and supply of them.
- vi. The price mechanism also helps the individual to arrive at correct decision regarding saving and spending.