Functions of money: Whether money is shells or rocks or gold or paper, it has three primary functions in any economy: as a medium of exchange, as a unit of account, and as a store of value.In a barter economy, transaction costs are high because people have to satisfy a "double coincidence of wants -- they have to find someone who has a good or service they want and who also wants the good or service they have to offer. Let's see what happens if we introduce money into Ellen the Economics Professor's world. Ellen can teach anyone who is willing to pay money to hear her lecture. She can then go to any farmer (or his representative at the supermarket) and buy the food she needs with the money she has been paid. The problem of the double coincidence of wants is avoided, and Ellen saves a lot of time, which she may spend doing what she does best: teaching. As this example shows, money promotes economic efficiency by eliminating much of the time spent exchanging goods and services. It also promotes efficiency by allowing people to specialize in what they do best. Money is therefore essential in an economy: It is a lubricant that allows the economy to run more smoothly by lowering transaction costs, thereby encouraging specialization and division of labor. The need for money is so strong that almost every society beyond the most primitive invents it. For a commodity to function effectively as money, it has to meet several criteria: (1) It must be easily standardized, making it simple to ascertain its value; (2) it must be widely accepted; (3) it must be divisible, so that it is easy to "make change"; (4) it must be easy to carry; and (5) it must not deteriorate quickly.In a barter economy, if Ellen wants to eat, she must find a farmer who not only produces the food she likes but also wants to learn econom-ics.

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