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THE CONCEPT OF MONEY IN FINANCIAL INSTITUTIONS IN A CRUCIAL ASPECT IN THE ECONOMY

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Abstract

The aim of this research is to understand the concept of money in critical aspects of the economy. This research method uses qualitative research, literature study. Research Results money is money, not capital, while in conventional economic concepts, the concept of money is not very clear, for example in the book "Money, Interest and Capital" by Colin Rogers, money is defined as money and capital interchangeably, whereas in the Sharia economic concept money is something that has a flow concept and is a public good, while capital has a stock concept and is a private good. Money that flows is public goods, while money that settles belongs to someone and becomes private property (private good). Money is public property (money is public goods). Anyone who hoards money or is left unproductive reduces the amount of money in circulation which can result in the economy not functioning. If someone deliberately accumulates money and doesn't spend it, it means blocking the process or smooth buying and selling. The implication is that the exchange process in the economy is hampered. Therefore, money should continue to flow like water so that the economy continues to run well so that the real sector also runs well, and this will have a positive impact on the economic growth of a country.

Keywords: Finance, Financial institutions, Economy

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INTRODUCTION

The concepts of money and financial institutions are two crucial aspects of economics that influence the daily lives of individuals and groups in society. This concept of money and financial institutions plays an important role in the regulation of transactions, allocation of resources and distribution of wealth in society. Where, money is a medium of exchange that people use to make payments for goods or services. Therefore, with the development of the means of exchange system, it can make it easier for people to fulfill their daily needs. Adiwarman A. Karim, (2022:78)

Therefore, to facilitate an increasingly diverse and varied system of exchange and transactions, a medium of exchange was introduced that is capable of receiving goods or services of comparable value, which is also known as "money". Where, initially people were only able to fulfill their daily needs by exchanging the goods they had for goods they needed or also known as the "barter" system. In this barter system, it makes it difficult for people to fulfill their daily needs, so that the concept of money has comparable value to be used as a medium of exchange or payment that is widely and generally accepted. Furthermore, a financial institution itself is an entity or institution that provides various financial services, including money storage, lending, investment and payment services. Boediono, (1994:89)

Where, these financial institutions also play an important role in facilitating the flow of funds in the economy which allows individuals and companies to be able to manage financial risks, access capital and store wealth safely. During its development, financial institutions experienced a significant transformation, starting from traditional institutions such as banks and cooperatives, to becoming non-bank institutions such as investment companies, pension funds, insurance companies and microfinance institutions. These changes are influenced by rapid technological advances and globalization as well as regulations that allow various entities to operate in the financial industry. Apart from that, financial institutions also have a role in creating and managing money in an economy. Dudley G. Luckett, (1994:67)

Meanwhile, the concept of money and Islamic financial institutions has deep and complex roots which are based on sharia principles contained in the

Koran and Sunnah. Where in Islam money is not only a medium of exchange but also has an intrinsic value. In this case, explains Iswardono., (1997:90)

that the concept of money and Islamic financial institutions strive to provide financial services in accordance with Islamic principles such as the prohibition of usury and the principles of justice. In the end, everything related to activities in the financial sector cannot be separated from the role of financial institutions. In accordance with the existing financial system, in its operational activities, financial institutions can take the form of conventional financial institutions and sharia financial institutions. Sharia financial institutions will operate in accordance with sharia principles and conversely conventional banks operate not in accordance with sharia principles. As Muslims, of course we are ordered to carry out every activity, including economics, in accordance with sharia principles, and fulfill the maqashid of sharia, so that we will receive blessings from Allah SWT. On the other hand, those who do not comply with sharia principles will bring harm to their lives.

LITERATURE REVIEW

In economic activities, money has a very important role in daily life. Where, in the economy itself, experts also define money a lot. In the Indonesian dictionary, money is a standard for measuring value issued by the government of a country in the form of paper, gold, silver or other metal printed with certain shapes and images.

According to Kasmir (2022: 78) money is something that can be generally accepted, namely as a means of payment in a region or as a means of paying debts or as a means of purchasing goods and services.

Legally, money is something that is defined by law as money. Therefore, anything that can be accepted as money is if there are rules or laws that indicate that something can be used as a medium of exchange or as a means of payment. Traditional economics defines money as any generally accepted medium of exchange. Either any object can be used as a medium of exchange as long as it is accepted by everyone in the process of exchanging goods or services. Meanwhile, modern economics defines money as something that is available and generally accepted as a means of payment for purchasing goods,

services and other valuable assets as well as for paying debts. M. Abdul Mannan, (1997: 90)

These two definitions tell us that ancient money functioned as a medium of exchange. Meanwhile, in modern times, apart from being a means of exchange, money also functions as a means of payment for goods or services and also as a means of paying debts. In cases like this, it explains to us that money is experiencing development and also has a long history of the process of forming money into a medium of exchange for payments made by individuals and groups of people.

In the early days of civilization, money was not able to meet people's needs independently. Or known as the Prabarte period, during which time humans obtained food and other needs only by relying on nature without depending on other people. As time goes by, humans find that they are unable to meet all their needs with their own efforts. therefore they try to find people who are willing to exchange their goods for the goods they need. So a system of exchanging goods emerged or also known as the "barter" system, namely exchanging goods for goods. Sulistono, S., & et al (2024: 97)

Then, as the population increases and civilization continues to change and advance, people's desires and communication as well as the types of needs also change with various differences, resulting in people not being able to fulfill their needs simultaneously. Which results in the creation of this double coincidence of wants situation. For example, once someone had rice and needed vegetables. However, at the same time, the vegetable owner does not need rice but needs meat, thus causing the conditions for bartering between vegetables and rice to not be met. Since then, people have begun to use various methods, the barter system also creates many difficulties, namely the difficulty of finding people who have the desired goods at the same time, as well as the difficulty of exchanging goods that have the same exchange value. Therefore, these activities create difficulties in the transactions carried out so that the idea arises of using goods or objects that can be used as a medium of exchange and are comparable to what humans need. The goods or objects designated as a means of exchange have the following characteristics: other; must be items that are accepted by the public and have high value, or have

magical and mystical value, or are really needed on a daily basis. Ulya, H.N. (2021:78). What is called "money". In the history of the Sumerian and Babylonian civilizations, money was first known. As time progressed, money developed and evolved following human history. Three types of money are used in economic activities, namely commodity money, paper money (token money), and demand deposit money (deposit money). 11 At the beginning, money was a medium of exchange. . Derivatives of the main function of money are mentioned, among others, such as money as a standard of value (standardization of value), store of value (store of wealth), unit of account (unit of calculation), and standard of deferred payment (standardization of deferred payments).12 Money is great innovation in human civilization and the position of money is very strategic in an economic system and is difficult to replace with other variables. And as confirmation, money is an integral part that cannot be separated from an economic system. So that money in the economy can carry out its operations more efficiently and serve as a standard of living for the community. Changes in the form of currency as the standard value of exchange rates in society's economic activities from time to time. Namely using the gold standard. as a back up or converted to a weight of gold as a fixed standard system, after the Bretton Wood agreement (1944: 89) it changed to a floating exchange rate system, a system determined through the mechanism of the forces of demand and supply.

Seeing money as an integral variable in an economy, Islam sees money as being created to facilitate transactions and determine fair value in exchange. If something or anything functions as money, its function is only as a medium of exchange.

METHODSE RESEARCH

Qualitative Research Methods have various variants, both from the theoretical flow that underlies them and from the subject matter that is the field of study. Apart from that, it turns out that qualitative methods can also be used to carry out evaluations which up to now have mostly used quantitative methods, because they are trying to choose something. The problem may be that our understanding of qualitative methodology is still limited so it is difficult to use qualitative methods for evaluation. This book presents interesting themes

related to the subject of qualitative evaluation; detailed description of program implementation; analysis of the processes taking place in the program; description of different types of participation and different kinds of participation; a description of how a program has affected participants; observed changes or lack of participation (Sugiono: 2018)

MEETN AND DISCUSSION

1. Money as a Medium of Exchange (Medium of Exchange)

In a barter economic system, exchange occurs directly between one good and another or one commodity and another, where someone will not hand over their goods to another person before receiving another person's goods which are willing to be exchanged. When money is used as a medium of exchange, what happens is buying goods with money and selling goods with money. This process will ultimately create specialization in producing goods and services, where each human being will carry out production according to their respective talents and skills and then sell the results of their production for money that can be saved and spent, either at that time or in the future. come, according to their individual needs. This specialization allows someone, for example, as a teacher or baker, or others, who, with talent and expertise, can fulfill their food, clothing and other necessities of life with income in the form of money received from their labor without having to make it themselves. In fact, he can keep the money he earns from his work as long as possible, without having to incur storage costs, either at the bank and earning interest or in his vault. He can also spend his money at any time, whether now, in the near future or in the future, because the nature of money is liquid and there are no storage costs, so it can be easily exchanged for other goods and services without having to incur high transaction costs.

The role and function of money as a medium of exchange or medium of exchange is acceptable in Islamic economics, because money must function that way, must continue to circulate and must not be deposited. Money is public property, money is a flow concept, so its circulation must continue for the benefit of humans in the context of exchanging goods and services in the economy.

2. Money as a Store of Value/Purchasing Power (Store of Value)

Money as a means of storing value/purchasing power is very flexible to be used as a store of wealth, because it is liquid and there are no storage costs for it. For example, a fisherman who has a very large catch of fish will not be able to keep the fish he catches for too long, because it will rot and become damaged. But if he exchanges it for money (sells it) and then gets money, he can save that money, both for current and future consumption needs.

Because there are no storage costs for money in a conventional economy, the most important requirement is that money must be able to store purchasing power or stable value. If the value of money changes and decreases (prices of goods and services rise or there is inflation, let alone hyperinflation), then the attraction of saving. From this it can be understood that money is a public good (public property) which is used as a medium of exchange, and demand Money is a derivative of the demand for goods and services in the economy. If money ceases to function properly, then the reason why money was created as a medium of exchange will be lost and this is very dangerous for economic stability.

Therefore, in the Islamic economic system there are only two known roles and functions of money. Namely, (1) money as a medium of exchange or medium of exchange, and (2) money as a unit of value calculation. The function of money as a means of storing wealth in conventional economics cannot be separated from the theory of demand for money with speculative motives, and this kind of behavior is not permitted in "Trading money is like imprisoning the function of money. If a lot of money is traded, there will be little left that can function as money."

3. Money as a Unit of Account or Measure of Value

Money as a unit of account or measure of value will certainly facilitate the process of exchanging two goods that are physically very different, such as cars and wheat, airplanes and rice.and so forth. Two types of goods that are physically different will be uniform and more easily exchanged if their respective values are expressed in currency units. In this

case, the money used to determine the value of an exchanged commodity acts as a common denominator or equation for all economic goods and the value of the goods exchanged is calculated in currency units. In a barter economic system, the role and function of money as a unit of value calculation is still necessary. For example, to measure whether the value of 1 quintal of rice is equal to 10 clothes. Or, is the standard measure of value between 1 quintal of wheat and 3 computers and so on.

4. **Money as a Standard Measure of Deferred Payment (Standard of Deferred Payment)**

Money as a standard means of deferred payment. In other words, money is related to lending and borrowing transactions or credit transactions, which means that goods now are paid for later or money now is paid later. In fact, this method of payment is related to the passage of time. Even though money itself is a toolmeasuring value (measure of value) or as a unit of calculation tool
(unit of account) is not fixed or unstable which results in
to the instability of value that occurs in every future economic transaction.

As a result, the idea of interest will emerge in every deferred payment, because of the desire to own certain objects as soon as possible rather than having these objects only at a later date. The price of using money as quickly as possible, called interest, is what makes people willing to pay it in exchange for the sacrifice of someone who is willing to postpone its consumption.

Thus, money is not included in the utility function because the benefits obtained are not from money directly, but from its function as an intermediary for changing one item into another item. The impact of the change in the function of money from being a medium of exchange and a unit of value to becoming a commodity can be felt today. In general, money has functions in the economy, namely: Medium of exchange or medium of exchange, Unit of account. or it can be a measure of economic activity, a store of value. Furthermore, Mustofa Edwin added that the function of money is standardization of value (standard of value) standardization of deferred payments (standard of differentiated payment).

KESCONCLUSION

The concepts of money and financial institutions in conventional and Islamic frameworks have fundamental differences in principles, practices and ultimate goals. In general, the concept of money in the conventional system is based on individual freedom to carry out transactions with the assumption that prices and interest will reach market equilibrium. Meanwhile, in Islam, money is considered a medium of exchange that must be supported by intrinsic value and used in transactions that comply with sharia principles. Conventional financial institutions tend to rely on interest as their main source of income, while in Islam, interest is considered haram and is replaced by the concept of profit sharing which emphasizes the sharing of risks and profits between the parties involved. Apart from that, Islamic financial institutions also have certain criteria in financing which must comply with sharia principles, such as prohibitions on investment in industry. In comparison, in conventional economics the concept of money is a stock concept and private property and is identical to capital, because money is also a commodity. On the other hand, in Islamic economics, money is a flow concept and public property that must always flow and circulate in society without being deposited or hoarded. This cannot be separated from the function of money.

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