



KHAN GLOBAL STUDIES

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Economics

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MEANING OF MONEY

- Money is a commonly accepted medium of exchange.
- Money is anything that can be **generally accepted** as payment for goods and services or settlement of debts.
- Money is the **most liquid (it is easy to sell in the market like gold, silver etc.**
- Any object that is generally accepted as means of payment. Currency, in the form of notes or coins, is one type of money
- Do remember that money is not a necessity and our society can exist without it. It acts as a facilitator only.

Functions of money

1. Primary Function

- (a) **Medium of Exchange** - Any commodity can be bought through money
- (b) **Measure of Value** - All commodities have their value that is expressed in terms of money

2. Secondary Function

- (a) **Store of Value** – The value of money can be stored for long term and which was not possible in Barter System
- (b) **Standard of Deferred Payments** - Future monetary obligations can be settled using money. For example A loan which is taken today is settled in installments.
- (c) **Transfer of Value** – money has the same value throughout the country and has its value is transferrable.

Barter system

- The Barter system is an **exchange of goods for other goods**. The exchange of commodities **without the mediation of money** is called Barter Exchange.

- It suffers from a **problem of double coincidence of wants**.
- The barter system **does not provide for the direct purchase of goods** since there was no common unit of account and medium of exchange (Money).

Merits and Demerits of Barter System

Merits	Demerits
<ul style="list-style-type: none">• Simplest in form• No foreign exchange regime• No concentration of wealth	<ul style="list-style-type: none">• Double coincidence of wants was a must• Exchange of perishable goods• No saving capital• No circular flow of income• No Divisibility or Fungibility of the same value.

DOUBLE COINCIDENCE OF WANTS

- It is an economic phenomenon where two parties each hold an item the other wants, so they exchange these items directly without any monetary medium.

Features of Money

- The properties of money are as follows
- **Fungible (interchangeability):** To be fungible, each unit must be capable of being replaced by another.
- **Durable:** Money must be able to resist repeated usage.
- **Divisible:** It should be capable of being divisible to smaller units.
- **Portable:** Money should be easily carried and transported.
- **Acceptable:** The majority of people must accept money as a mode of payment.
- **Scarce:** It's available supply must be restricted.

Objective Question

Q1. The Indian Economy is characterised by:

1. Pre-dominance of Agriculture
2. Pre-dominance of Industry
3. Low Per Capita Income
4. Massive Unemployment

Select your answer from the code given below:

- (a) 1 and 2 only (b) 1, 2 and 3 only
(c) 2, 3 and 4 only (d) 1, 3 and 4 only

Q2. Which sector of Indian Economy has shown remarkable expansion during the last decade?

- (a) Primary Sector (b) Secondary Sector
(c) Tertiary Sector (d) Mining Sector

Q3. In an economy, the sectors are classified into public and private on the basis of:

- (a) employment condition
(b) nature of economic activities
(c) ownership of enterprises
(d) use of raw materials

Q4. The process of curing inflation by reducing money supply

- (a) Cost-push inflation (b) Down-pull Inflation
(c) Disinflation (d) Reflation

Q5. In the parlance of economy/commerce, what is 'Gilt-edged market'?

- (a) Gold and silver market
(b) Industrial securities market
(c) Market of safe (such as Government) securities
(d) Market for software technology/service products

Q6. Expand the term LIBOR:

- (a) London Inter-Bank offered Rate
(b) London Inter-Bank Operational Rate
(c) London Inter-Bank Offsite Rate
(d) London Inter-Bank Onsite Rate

Q7. Which of the following is the correct definition of the term 'Commercial Papers'?

- (a) It is nothing but the popular name of the papers by which government raises funds
(b) It is one of the instruments of money market through which corporates raise debt from the market.
(c) It is the name of the 'Certificate of Deposits provided by the Banks to its retail customers.
(d) Both 'a' and 'b'

Q8. Which one of the following is the method of controlling Inflation in India?

- (a) Increase in the government expenditure
(b) Reduction in taxes
(c) Increase CRR and SLR

(d) Government purchases securities in open market operation

Q9. A rise in SENSEX means:

- (a) a rise in prices of shares of all companies registered with Bombay Stock Exchange.
(b) a rise in prices of shares of all companies registered with National Stock Exchange.
(c) an overall rise in prices of shares of group of companies registered with Bombay Stock Exchange. (d) a rise in prices of shares of all companies belonging to a group of companies registered with National Stock Exchange.

Q10. Consider the following statements

1. Headline inflation is a measure of the total inflation in an economy.
2. Headline inflation is affected by areas of the market which may experience sudden inflationary spikes such as food, vegetables or energy.

Which of the statement (s) given above is/are correct?

- (a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Q11. Which of the following items has maximum weight in whole sale price index in India?

- (a) Food item (b) Manufactured product
(c) Fuel and power (d) Primary article

Q12. Which of the following measures is generally used by the government to control recession in the economy

- (a) Increase in the money supply
(b) Increase government spendings
(c) Decrease taxation
(d) All of the above

Q13. Consider the following statements about the Indian Capital Market.

1. Primary Market in India is mainly dealt in the new issues and debentures.
2. Primary Market in India is supervised by the Insurance Regulatory Development Authority.

Which of the statement(s) given above is/are correct?

- (a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Q14. Which among the following statements is true

- (a) Inflation is good for the creditors
(b) The main index of measuring inflation is WPI
(c) RBI doesn't have any role in controlling Inflation
(d) Inflation is good for flexible income group

Q15. Which of the following is the formal financial contract between two parties

- (a) Currency Swap (b) Interest Rate Swap
(c) Futures (d) Forward