



KHAN GLOBAL STUDIES

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Economics

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Types of money

1. Full-bodied money

- Money whose face value is equivalent to its intrinsic value. Full value is embedded in the currency itself
- Money value = commodity value
- For example; gold currency

2. Token Money

- Its value as money is much more than its value as a commodity
- Money value > commodity value

3. Commodity Money

- Commodity money is a physical good with 'intrinsic value' – a use other than money.
- **Alcohol, cocoa beans, copper, gold, silver, salt, seashells, tea, and tobacco** are all historical examples.

4. Fiduciary money

- This type of money is accepted on the basis of the trust between the payee and the payer.
- For eg: Cheque. You are not bound to accept it legally but when there is trust between you and the person who is making the payment via cheque then you'll readily accept it as a mode of repayment.

5. Near money/Quasi money

- It refers to highly liquid assets that can be quickly converted into cash. These are generally non-cash assets that are very liquid but cannot be used directly for transactions.
- Near money takes some time to convert to money
- **For example, Your fixed deposit account** in any bank is a type of near money. It is liquid but still not liquid as cash because you'll have to go to the bank first, fill in the paperwork to get the cash out from your FD before you can spend it. That's why it's near money.

6. HOT Money

- Hot currency is a term of the forex market and is a **temporary name** for any hard currency.
- The Currency which is easily transferable from one country to another that is the currency which is generally used for export and import between one country to another.
- Due to certain reasons, if a hard currency is exiting an economy at a fast pace for the time, the hard currency is known to be hot.

7. HARD Money

- It is the **international currency in which the highest faith is shown** and is **needed by every economy**.
- The currency whose value doesn't fluctuate rapidly.
- It is strongest currency of the world, **one which has a high level of liquidity**. Basically, the economy with the highest as well as **highly diversified exports**, that are compulsive imports for other countries

8. SOFT Money

- A term used in the foreign exchange market which denotes **the currency that is easily available in any economy** in its forex market.

- The currency whose value changes rapidly.

9. HELICOPTER MONEY

- It is a **hypothetical** concept put forward by the economist, **Milton Friedman**.
- This involves the central bank of the country printing currency notes and distributing it to the people **free of cost**.
- The idea here is **to promote demand** in the economy during recession.

10. Plastic money

- It is used to refer to credit cards, debit cards, etc that we routinely use instead of actual cash.

11. FIAT MONEY

- Paper money acted as money (Legal tender) because **they are guaranteed by the national governments**. Fiat money is **legally recognized** to settle all debts & payments within territorial jurisdiction.

- Fiat money gives central banks greater control over the economy because they can control how much money is printed

- When fiat money is backed by gold or silver standard, it's called **"representative money"**, and when central bank promises **"to pay bearer the sum of this many rupees"**, currency becomes an "anonymous bearer bond with zero interest".

- **Examples**→ US dollar, Indian Rupee, Euro, et(c)

- **In India, two entities issue fiat money** –

1. **Government of India under the coinage act 1909** issues all coins and Rs.1 note; while

2. **RBI Act 1934** empowers **RBI** to issue the remaining bank notes and RBI central board is empowered to make recommendation to government of India to withdraw any notes from circulation. This is called “**Demonetization**” and was **done thrice** in India after independence.

12. **BANK MONEY**

- Backed by Central bank of the country viz.
- Cheque, Bank Draft, NEFT, RTGS
- Credit cards & Debit cards

13. **VIRTUAL MONEY**

- Virtual currency is a **type of unregulated digital currency that is only available in electronic form.**
- Virtual currency is currency held within the blockchain network that is **not controlled by a centralized banking authority.**
- It is **stored and transacted only through designated software, mobile or computer applications**, or through dedicated digital wallets, and the transactions occur over the **internet** through secure, dedicated networks.
- Virtual currency is considered to be a **subset of the digital currency group**, which also includes cryptocurrencies, which exist within the blockchain network.
- Virtual currency is different than digital currency since digital currency is simply currency issued by a bank in digital form.
- **El Salvador**, on the other hand, became the first country in the world to accept bitcoin as legal tender in June 2021.

MONEY MULTIPLIER

- The money multiplier is **maximum amount of broad money that could be created** by commercial banks for a given fixed amount of base money and reserve ratio.
- **Money multiplier (m)** is the inverse of the **reserve requirement (R)**
Money Multiplier = 1/Reserve ratio
 $m = 1/R$
- For example, with a reserve ratio of 20%, this reserve ratio can also be expressed as a fraction: $R = 1/5$
- As a result, the money multiplier, m, will be calculated as:
 $m = 1/(1/5) = 5$

Minimum Reserve System

- Printing of currency notes in India is done on the basis of the Minimum Reserve System(MRS).
- The MRS system is applicable in India since 1956.

- Under the Minimum Reserve System(MRS), the RBI has to keep a minimum reserve of Rs 200 crore comprising of gold coin and gold bullion, and foreign currencies for noteissuing.
- Out of the total Rs 200 crores Rs 115 crore should be in the form of gold coins or gold bullion. Rest 85 cr. should be in the form of foreign currencies

VELOCITY OF MONEY CIRCULATION

- The **number of times a unit of money changes hands during the unit period** is called the velocity of circulation of money.
- It is the **average number of times** money passes from one hand to another, during given time period(d)

Central Bank Digital Currency (CBDC)

- CBDCs are a **digital form of a paper currency** and unlike cryptocurrencies that operate in a regulatory vacuum, these are **legal tenders issued and backed by a central bank.**
- Instead of printing paper currency or minting coins, the central bank issues electronic tokens.
- It is the **same as a fiat currency and is exchangeable one-to-one with the fiat currency.**
- CBDC is **backed by the full faith and credit** of the government.

Cryptocurrency vs Digital currency

Here are some key differences –

- **Decentralization:** Digital Currencies are centralized meaning they are regulated and issued by a single entity like a central bank.
- **Openness:** In Cryptocurrencies, one can see all the transactions as the directory (ledger) is kept open. This functionality is an integral feature of blockchain where every block contains information about the previous transaction. In Digital Currencies one would not be able to visualize the entire chain of transactions.
- **Legal framework:** Most Cryptocurrencies have no legal frameworks while a digital currency is backed by an appropriate legal framework

Digital Currencies of different countries

- **Bahamas** has been the first economy to launch its nationwide CBDC — **Sand Dollar.**
- **Nigeria** is another country to have rolled out **eNaira in 2020.**
- **China** became the world’s first major economy to pilot a digital currency **e-CNY / e- RMB in April 2020.**
- **Sweden** is conducting real-world trials of its digital currency (**krona**)

Objective Question

1. Consider the following liquid assets:

1. Demand deposits with the banks
2. Time deposits with the banks
3. Savings deposits with the banks
4. Currency

The correct sequence of these assets in decreasing order of liquidity is

- (a) 1-4-3-2 (b) 4-3-2-1
(c) 2-3-1-4 (d) 4-1-3-2

2. When the Reserve Bank of India announces an increase of the Cash Reserve Rate, what does it mean?

- (a) The commercial banks will have less money to lend
(b) The Reserve Bank of India will have less money to lend
(c) The Union Government will have less money to lend
(d) The commercial banks will have more money to lend

3. Which of the following is not included in the assets of a commercial bank in India?

- (a) Advances
(b) Deposits
(c) Investments
(d) Money at call and short notice

4. Which of the following measures would result in an increase in the money supply in the economy?

1. Purchase of government securities from the public by the Central Bank
2. Deposit of currency in commercial banks by the public
3. Borrowing by the government from the Central Bank
4. Sale of government securities to the public by the Central Bank

Select the correct answer using the codes given below:

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

5. Consider the following:

1. Currency with the public
2. Demand deposits with banks
3. Other Deposits with RBI
4. Time deposits with banks

Which of these are included in Broad Money (M3)

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

6. Following are some components of money supply in India:

1. Currency with the public
2. Aggregate demand deposits with banks
3. Aggregate time deposits with banks
4. 'Other' deposits with the Reserve Bank of India

Which of the aforesaid items are components of narrow money (M1) in India?

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

7. The money multiplier in an economy increases with which one of the following?

- (a) Increase in the cash reserve ratio
(b) Increase in the banking habit of the population
(c) Increase in the statutory liquidity ratio
(d) Increase in the population of the country

8. An increase in the Bank Rate generally indicates that

- (a) Market rate of interest is likely to fall.
(b) Central Bank is no longer making loans to commercial banks.
(c) Central Bank is following an easy money policy.
(d) Central Bank is following a tight money policy.

9. Consider the following:

1. Bank rate
2. Open market operations
3. Public debt
4. Public Revenue

Which of them is/are part of Monetary Policy?

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

10. Note issuing department of RBI should always possess a minimum gold stock worth

- (a) Rs. 85 crores (b) Rs. 115 crores
(c) Rs. 200 crores (d) None of the above

11. Which of the following is a step that the central bank will take to encourage greater investment in the economy?

- (a) It will look to increase the cash reserve ratio
(b) It will look to reduce the cash reserve ratio
(c) It will look to increase the bank rate
(d) It will look to sell the government securities in the open market

12. Which of the following is a step that the central bank will take to increase the overall Money Supply?

- (a) It will sell the government securities in the market
(b) It will buy more government securities from the market
(c) It will raise the reverse repo rate
(d) It will raise the repo rate

13. Which of the following statements is true about demand deposits?

- (a) It includes both fixed deposits and current account deposits
(b) It includes both savings account deposits and fixed deposits
(c) It includes both current account deposits and savings account deposits
(d) It includes fixed deposits, current account deposits and savings account deposits

- 14. Which of the following statements about the bank rate is true?**
- Bank rate is different from interest rate
 - Bank rate is the discount rate provided by the central bank of a country
 - Bank rate is defined as the rate at which the central bank of a country gives credit to the commercial banks
 - All of the above
- 15. Which of the statements gives an accurate picture of the effect of the increase in the repo rate?**
- The money supply in the country will decrease
 - The money supply in the country will increase
 - The money supply in the country will increase initially and then decrease
 - There is no effect on the money supply in the country
- 16. Which of the following statements is true about credit creation by banks?**
- Banks create credit on the basis of their total assets
 - Banks create credit on the basis of their total deposits
 - Banks create credit on the basis of their total securities
 - Banks create credit out of nothing
- 17. Which of the following statements is true about the money supply?**
- It is the total volume of money that is held by the government of a country
 - It is the total volume of money that is held by the general public of a country over a time period
 - It is the total volume of money that is held by the general public of a country at a particular point in time
 - All of the above
- 18. Which among the following is considered to be the most liquid asset?**
- Gold
 - Money
 - Land
 - Treasury bonds
- 19. The number of times a unit of money exchanges hands during a unit period of time is known as:**
- velocity of circulation of money
 - speed of circulation of money
 - momentum of circulation of money
 - count of circulation of money
- 20. In the terminology of economics and money demand, the terms M1 also known as :**
- Short money
 - Long money
 - Broad money
 - Narrow money
- 21. In the terminology of economics and money demand, the terms M3 also known as :**
- Short money
 - Long money
 - Broad money
 - Narrow money
- 22. What is the Cash Reserve Ratio (CRR)?**
- the fraction of the deposits that commercial banks lend to the customers
 - the fraction of the deposits that RBI must keep with commercial banks
 - the fraction of the deposits that commercial banks must keep with RBI
 - none of the above
- 23. Foreign currency, which has a tendency of quick migration, is called**
- hot currency
 - Gold currency
 - soft currency
 - Hard currency
- 24. One rupee note is signed by**
- Secretary to the Ministry of Finance
 - Governor, Reserve Bank of India
 - Finance Minister
 - none of these
- 25. Which of the following payment instruments introduced by banks is known as plastic currency**
- bearer check
 - Credit card
 - Demand draft
 - Gift check
- 26. The control of interest rate of banks is based on the recommendation of _____.**
- Chelliah Committee
 - Dantawala Committee
 - Narasimhan Committee
 - none of these
- 27. Hard money means that currency which**
- very difficult to bear
 - very difficult to earn
 - belongs to developed countries
 - of developing countries
- 28. Who is liable for currency notes of two rupees and above**
- Government of India
 - State Bank of India
 - Reserve Bank of India
 - all of the above
- 29. At present the regulator of insurance is**
- Finance Secretary
 - Governor of Reserve Bank of India
 - President of General Insurance Company
 - Charima of IRDA
- 30. Bank note press is located at**
- Nashik
 - Dewas
 - Salboni
 - Hoshangabad