

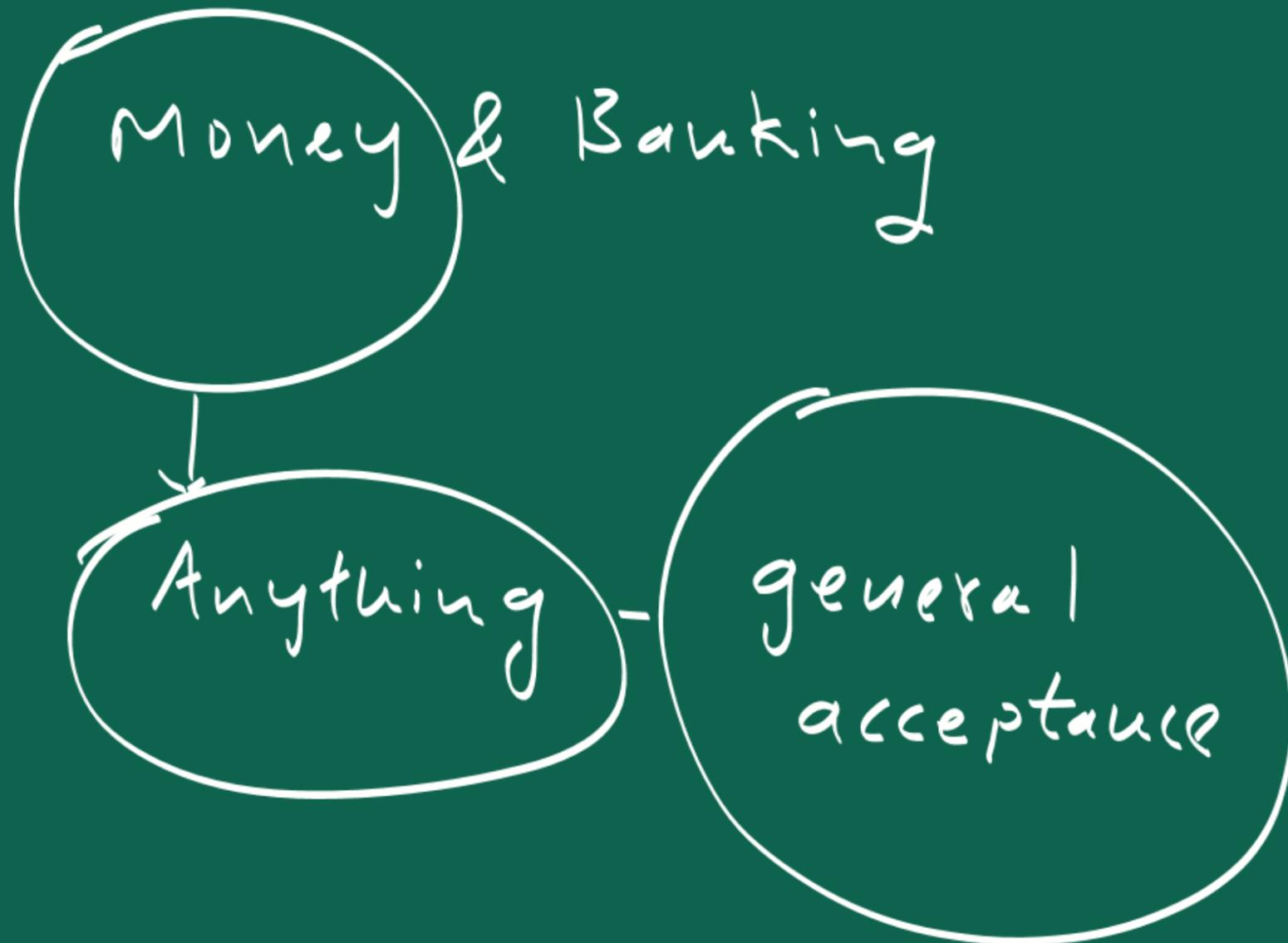
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ICOR ↑

Money & Banking

Anything

general acceptance



- (i) Medium of exchange
- (ii) Store of value
- (iii) unit of account

~~Forex Reserves~~

# Minimum Reserve System



₹ 200 crore



# Demand for money



It is the total amount of money which people want to hold for various purposes like transactions of goods & services.

The demand for money is dependent on the following to important factors -

- (i) The level of income → Positive association
- (ii) The rate of interest → Negative association

At a given level of income, the demand for money can be shown through the following diagram -

rate of interest

15%

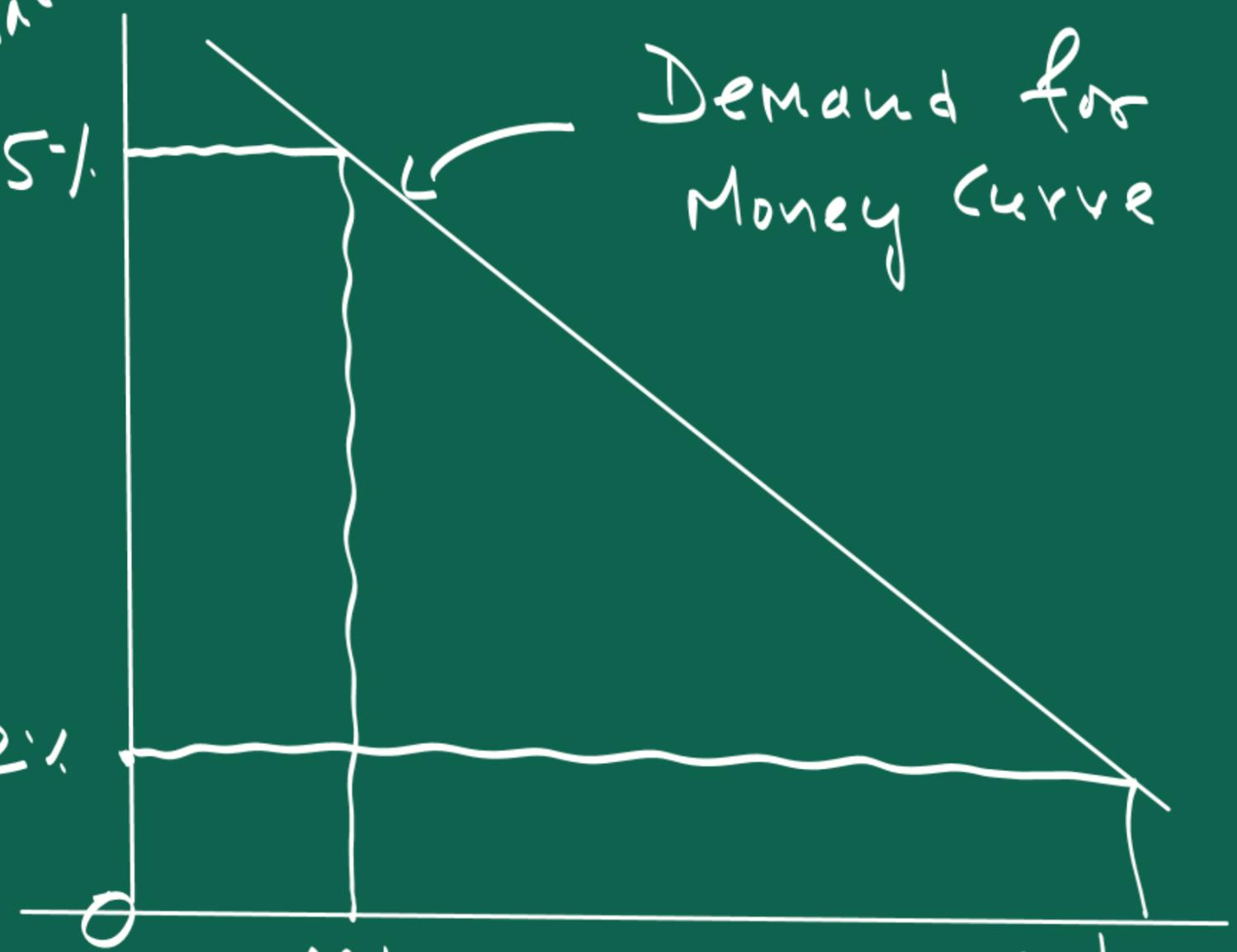
Demand for Money Curve

2%

Quantity of Demand for money

$Md_1$

$Md_{10}$



# The Supply of Money

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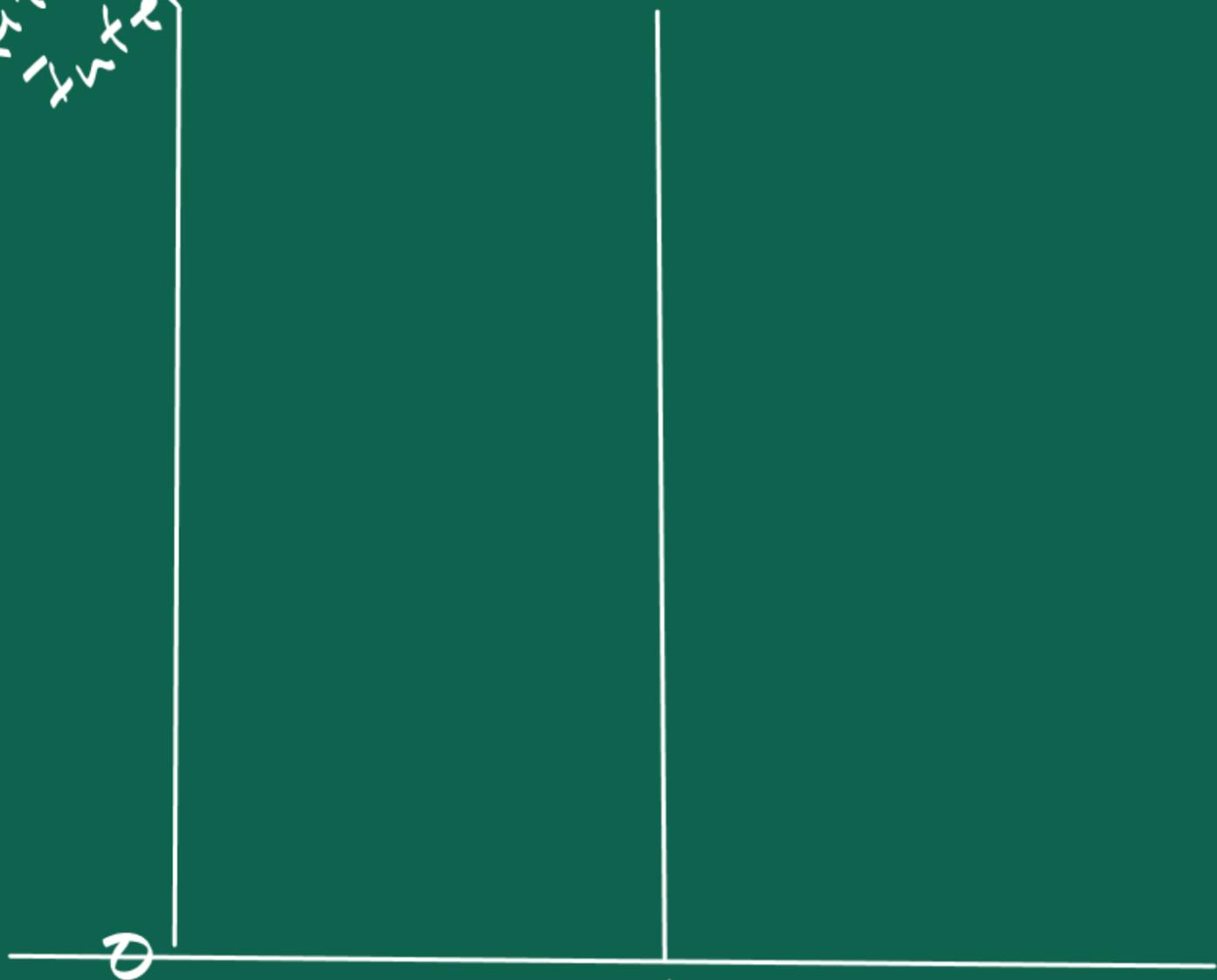


The supply of money is the total money in circulation.

It is determined by the central bank.

It is not impacted by the rate of interest. It can be given in the following manner —

Rate of Interest

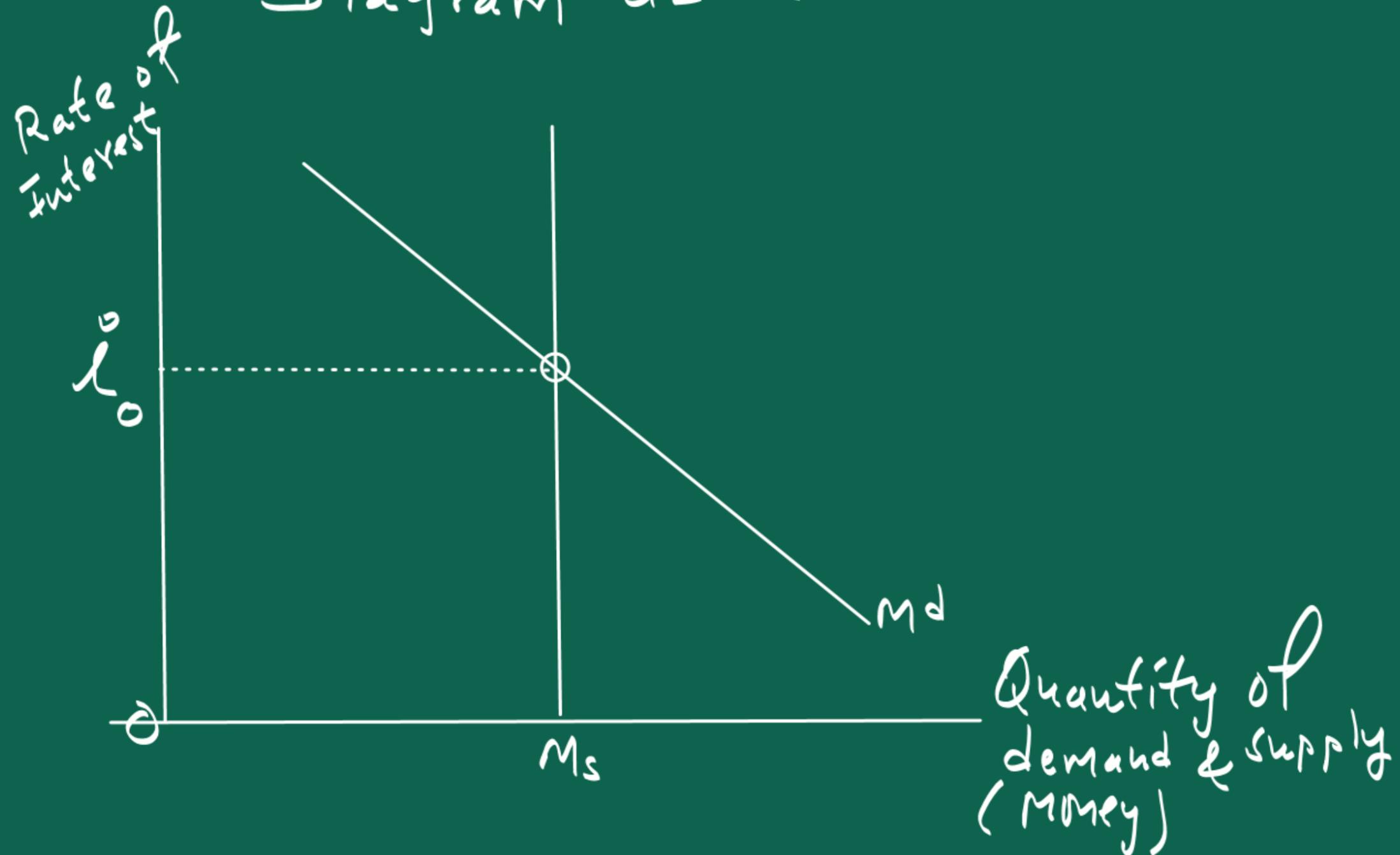


Ms

Quantity  
of  
Money supply

# The determination of the rate of interest

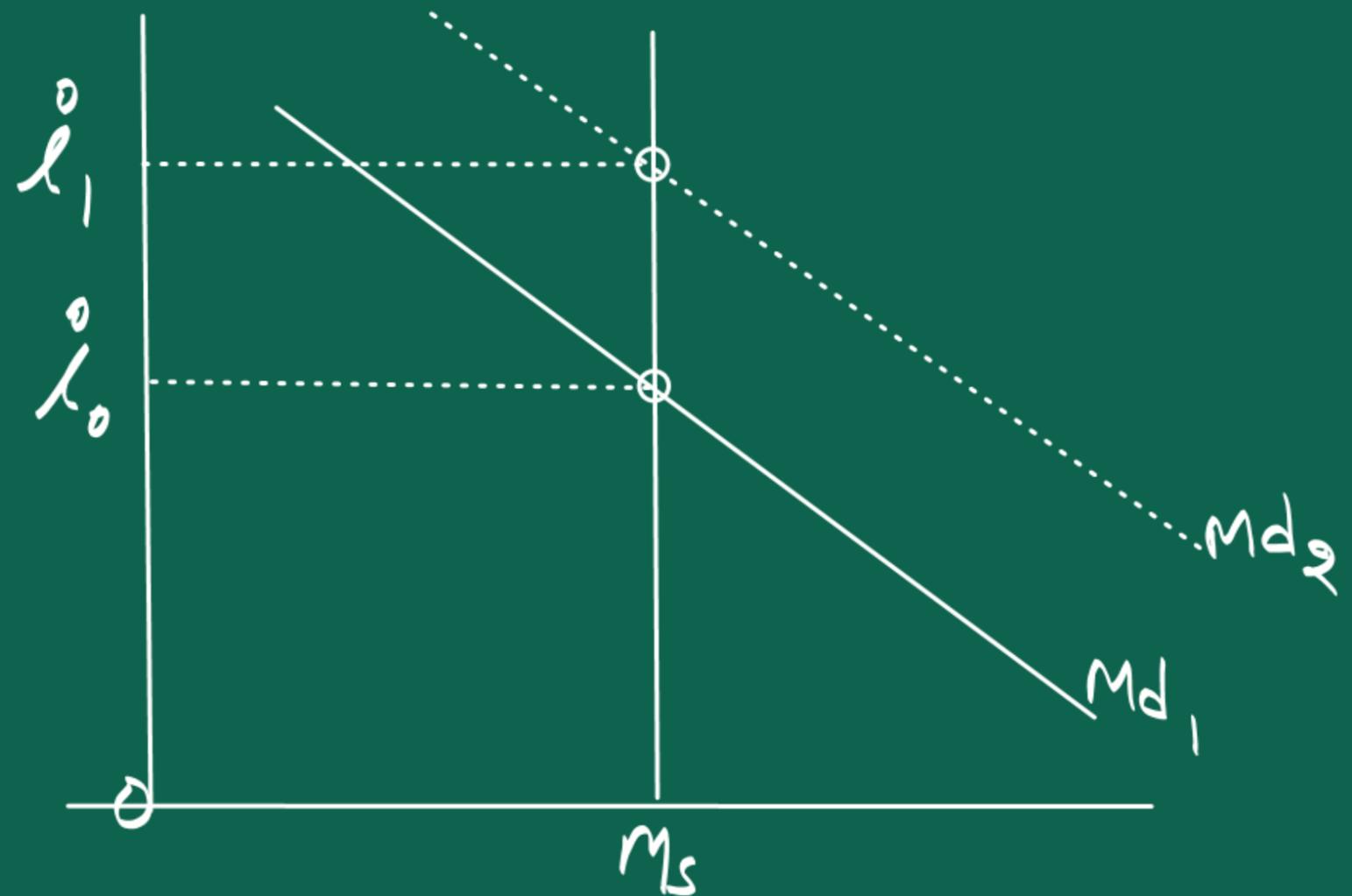
Diagram as below



Increase in the demand for money  
& impact on the rate of interest - UPSC PT

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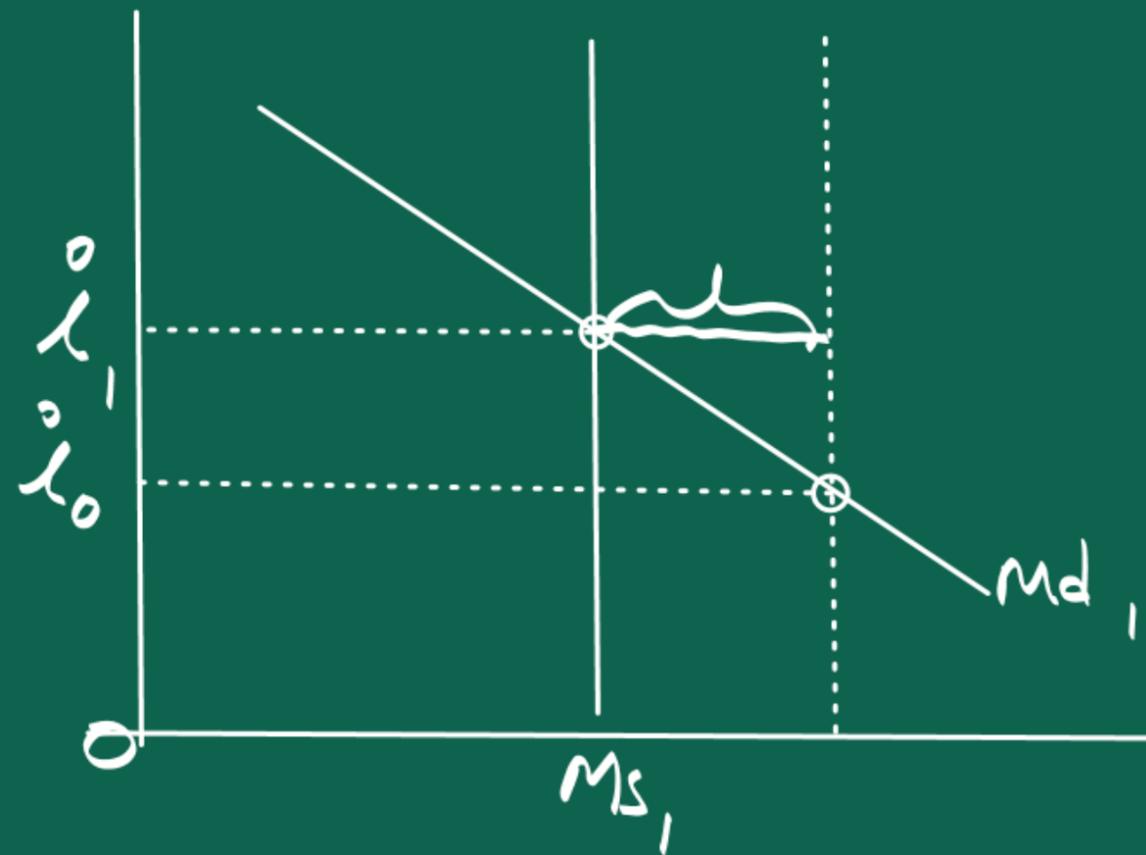
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Diagram as given below -



Increase in Money Supply  
&  
Impact on the rate of interest }  $\rightarrow i^0 \downarrow$

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Diagram as given below



## Rates & Ratios

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Bank Rate —

It is the rate at which the RBI rediscounts the first category commercial bills to be submitted by the commercial banks.

Thus the bank rate is the rate of rediscounting.

The commercial bills are the documents to be issued mostly by traders in order to exchange goods or money.

In these documents, the issuer promises to pay a certain amount to a person.

If, any bank provides guarantee on these documents, then, they are called the first category commercial bills.

