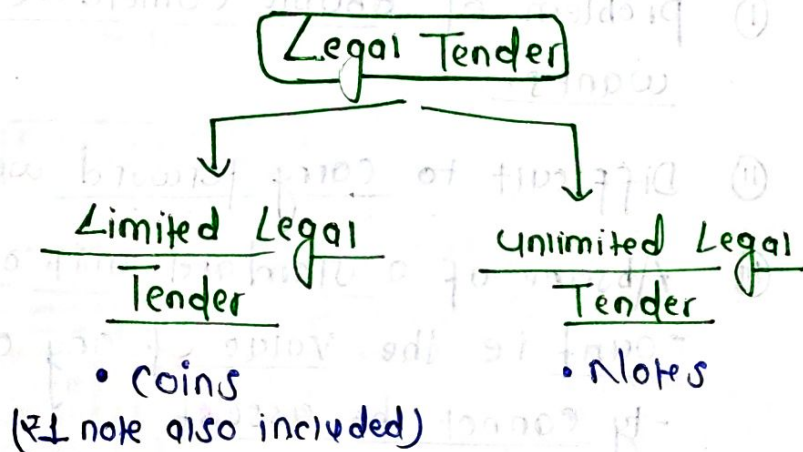


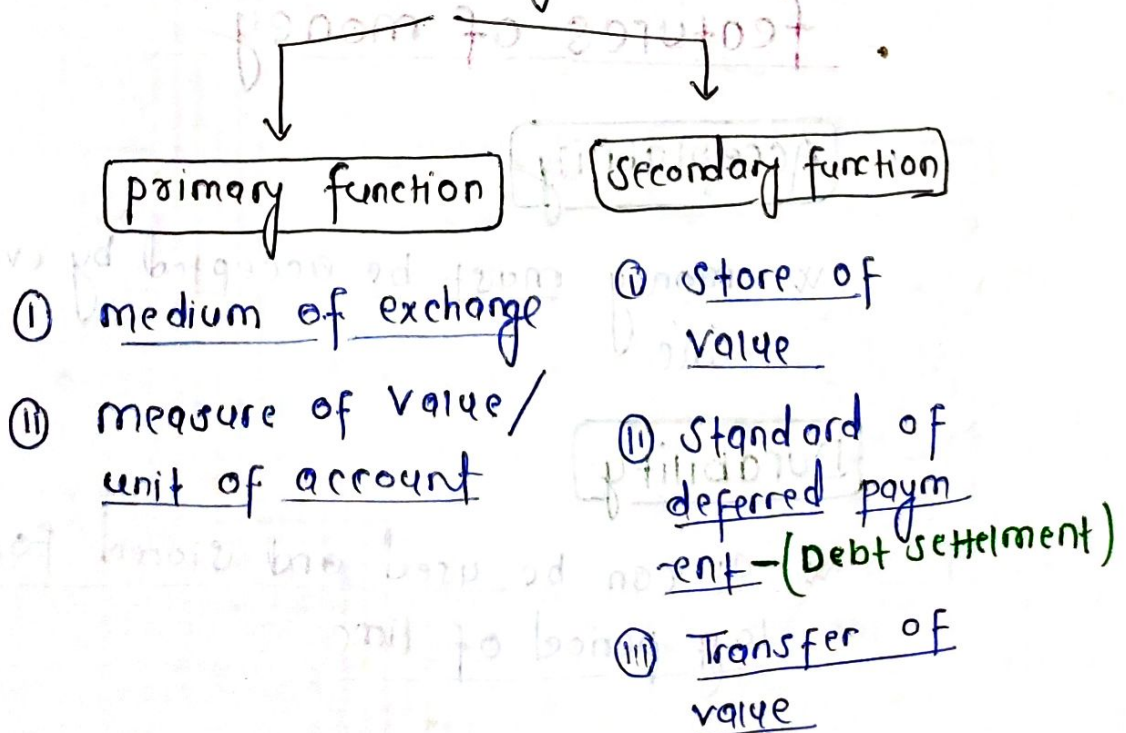
Money

Money : Any commodity which is generally accepted as medium of exchange.

Legal Tender : when the money which is issued by government must be accepted as a medium of exchange i.e. when government issues any currency (coins + paper notes) is termed as legal tender.



functions of money :



Barter system

It was the system of exchange where commodities were exchanged in place of commodities.

In barter system the exchange was only possible when there is a double coincidence of wants.

Major problems of barter systems and Reasons for evolution of money

- ① problem of double coincidence of wants.
- ② Difficult to carry forward wealth.
- ③ Absence of a standard unit of account i.e. the value of any commodity cannot be ascertained.

features of money

Acceptability

money must be accepted by every one

Durability

It can be used and stored for long period of time

fungibility

₹ 100 → 1 note
₹ 10 → 10 notes } (same value)

Limited Supply

✓ The supply of money must be limited because when the money will be unlimited it will reduce its value.

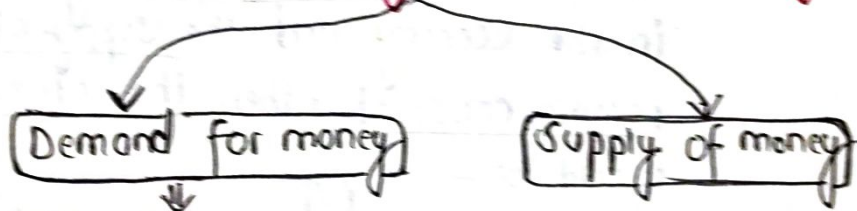
Divisibility

✓ money can be easily divisible by each other.

Portability

✓ money can be easily carried from one place to other.

Demand for money & Supply of money



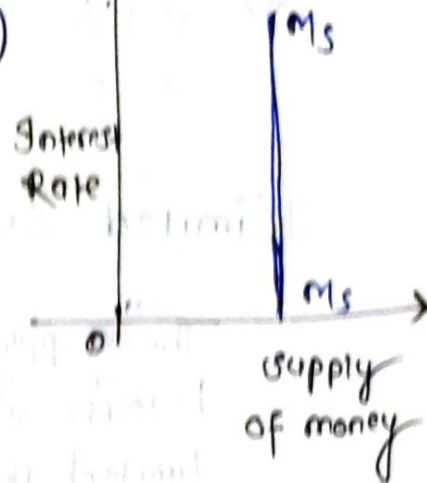
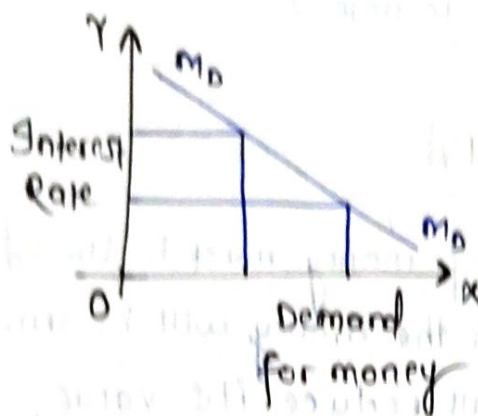
Relationship between demand for money and level of income and interest rate.

① Relationship between demand for money and level of income

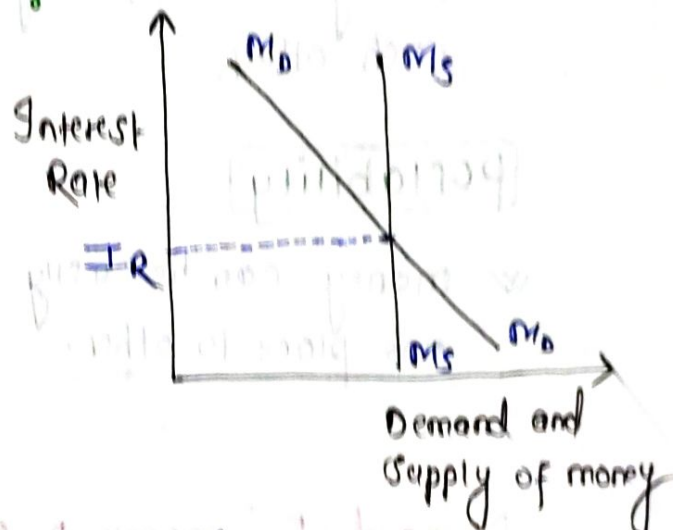
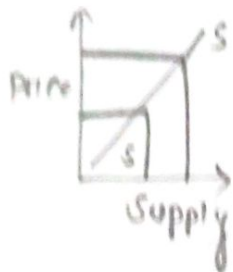
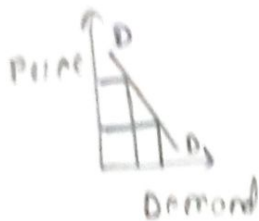
(+ve)

The supply of money is independent from the level of income and the interest rate in the economy.

② Relationship between demand for money and interest rate (-ve)



Determination of Interest Rate in Economy :

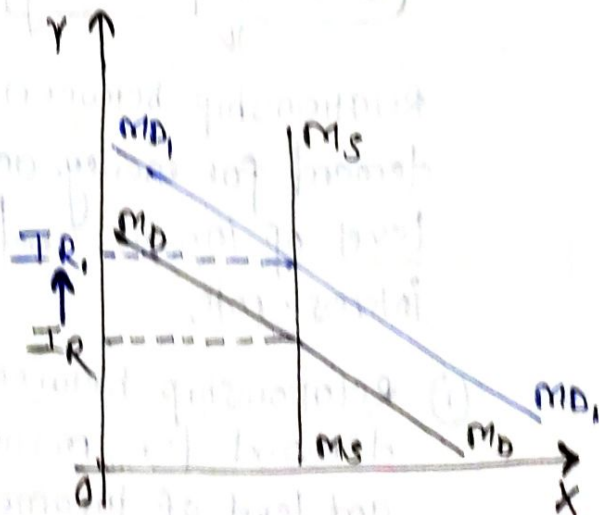


✓ when the demand for money increases in the economy and the supply of money remain constant, then the interest rate would be -

Supply or Demand

Inc → shift right

Dec → shift left



Methods of measuring money

Supply : (monetary Aggregate)

Old methods

- 1977 - 1998
- M_1, M_2, M_3
and M_4

New methods

- 1998 onwards
(Yv Reddy)
- M_0, NM_1, NM_2
and NM_3 and
liquidity aggregates.

Money supply

w The total amount of money held
at the whole country at this time
called money supply.

w money supply is a **Stock Concept** as
it measures the total quantity of
money at a point of time.

w In India money supply measured
by RBI.

methods of measuring money supply

Old methods

$$① M_1 = C + DD + OD$$

$C \rightarrow$ currency with public

$DD \rightarrow$ Demand deposits with bank
(CASA)

OD $\rightarrow$ other deposits with RBI

(a) deposits of financial institutions (Bank)

(b) Imf, world Bank etc deposits

(c) deposits of foreign countries.

$M_2 \rightarrow M_1 + \text{post office saving account}$

$M_3 \rightarrow M_1 + \text{Time/Term deposits with Bank (F'D RD)}$

$M_4 \rightarrow M_3 + \text{All deposits of post offices (excluding NSE)}$

New methods

$M_0 \rightarrow \text{currency with public} + \text{Banker's deposits with RBI} + \text{other deposits with RBI}$

$NM_1 \rightarrow C + DD + OD$

$NM_2 \rightarrow NM_1 + \text{short term deposits with Bank (less than 1 year)} + \text{certificate of deposits issued by Bank.}$

$M_3 \rightarrow M_2 + \text{long term deposit with Bank (more than 1 year)} + \text{call/Term funding from institutions.}$

Liquidity Aggregates

$L_1 \rightarrow M_3 + \text{post office all demands (excluding Nsc)}$

$L_2 \rightarrow L_1 + \text{Terms deposit, Term borrowings and certificate of deposits of some financial institutions.}$

$L_3 \rightarrow L_2 + \text{public deposit in NBFC.}$

Liquidity

$M_0 > M_1 > M_2 > M_3 > M_4$

Highly liquid

Types of money :

* Central Bank of money :

M_0 is also called : High powered money,
monetary Base, Reserve money, government's money.

* Commercial Banks money

M_1 and M_3

* Narrow money — M_1

* Broad money — M_3 → main method
of measuring
money supply in India.

* Dear / Tight money —
money which is available at higher
interest rate.

* Cheap money —
money which is available at cheap lower
interest rate.

Value of currency

Intrinsic

Extrinsic

The value of the
commodity or the
metal which is used
in the currency is
called Intrinsic value
of the currency.

The face value of
the currency is
called its extrinsic
Value.

* Full - Bodied money :

Intrinsic value = Extrinsic value

Ex: gold coin.

* Token money :

Intrinsic value < Extrinsic value

✓ Generally, the currencies which are issued by the RBI and government have features of token money.

* Commodity money :

✓ If any commodity which fulfills the meaning of money i.e. accepted by everyone as a medium of exchange

Ex: gold coin, Sea shells in older times.

* Good money :

Intrinsic value > Extrinsic value

* Bad money :

Intrinsic value < Extrinsic value

Gresham's Law

✓ Bad money drives good money out of circulation.

* fiat money :

↳ fiat = order

↳ The money which is ordered by government and each individual bind to use that money as a medium of exchange.

↳ The currency in circulation is called fiat money.

↳ They are not backed by any gold security like gold and their value is determined with the basis of demand and supply.

* fiduciary money :

↳ The money which is used on the basis of faith and trust.

Ex : cheques

* Near money / Quasi money :

↳ The money which takes some time to convert into cash.

Ex : FD and RD of

* Hot money :

↳ money which is easily transff-erable from one country to another

Ex: US-Dollar, Europe-Euro, UK-pound
Japan-yen, China-Yuan (Renminbi)

* Hard money:

✓ The money whose value does not change rapidly.

Ex: US-Dollar

* Soft money:

✓ The money whose value changes rapidly.

Ex: Indian Rupee.

* Plastic money:

✓ Debit card and credit card

* Virtual money:

✓ Internet based money

Ex: crypto currencies (Bitcoins)
No regulator and CBDC (Central Bank Digital currency - e-Rupee)
Regulator RBI

✓ It was launched in 2008 by
Japanes Satoshi Naka moto

✓ It is a decentralised currency.
i.e. there is no international regulator.

✓ In 2018 RBI banned the trading of crypto currency in India but in 2020 Supreme court lifted the ban.

✓ EL - Salvador - first country who gave the legal tender for bitcoins.
to cryptocurrency

money multiplier (m)

$$\text{money multiplier (m)} = \frac{1}{\text{Reserve Ratio (r)}}$$

(r = CRR and SLR)

Example :

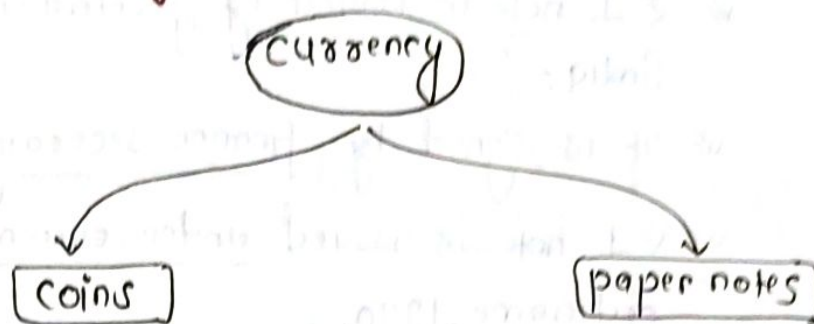
⇒ If r is 20% then what will be money multiplier?

$$m = \frac{1}{20\%} \Rightarrow \frac{100}{20} \Rightarrow 5$$

when money multiplier is 5 it mean that the commercial bank will create 5 times money

Banks	Deposits	Reserve Ratio (r = 20%)	Credit creation
A	RS 1000 (Primary depo)	RS 200	RS 800
B	800	160	640
C	> 640	128	512
D	512	102	410
,	-	-	-
Total	5000	1000	4000

Monetary system in India



✓ All the coins are minted by government of India.

✓ Indian coinage Act 1906 (2011)

✓ In India coins are minted at 4 places

① Mumbai

- 1829
- Symbol : B/m

② Hyderabad

- 1903
- ★ ◆

③ Kolkata

- 1957
- No symbol

④ Noida

- 1984
- Symbol : •

✓ Largest denominated coin can be of ₹1000

✓ ₹ 2 and above notes are issued by RBI.

✓ Notes are issued as per the RBI Act 1934.

✓ The largest denomination of Indian notes can be of ₹ 10,000

✓ In India paper notes are printed at 4 places.

① Nasik

② Dewas

③ Saigon

④ Bengaluru

Note

- ₹ 1 note is issued by government of India.
- It is signed by finance secretary.
- ₹ 1 note is issued under currency ordinance, 1940.

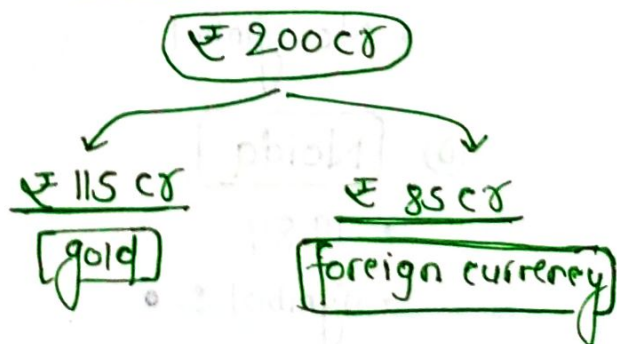
Basis of issuing notes in India by RBI:

- Before 1956 → proportional Reserve system.

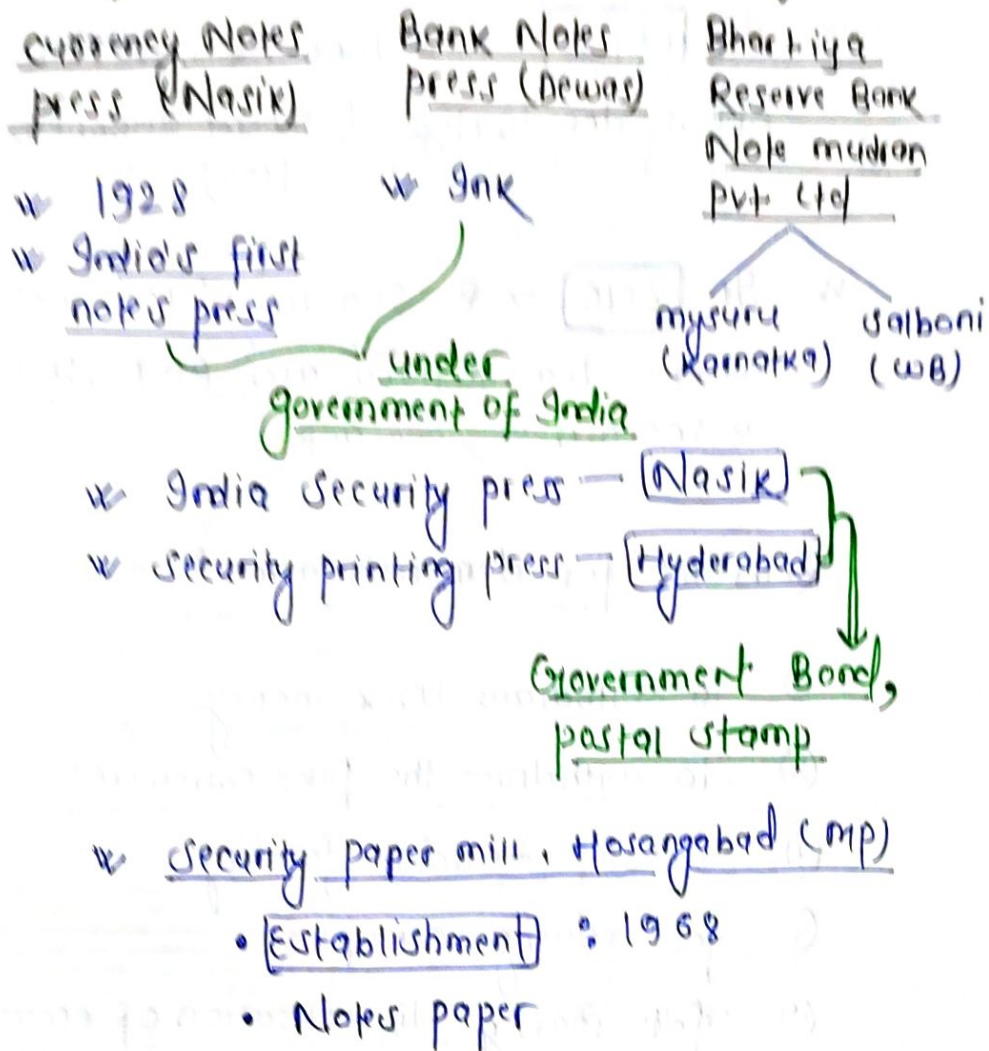
↓
under this system RBI have to maintain 40% of gold reserve.

- from 1956 onwards → minimum Reserve system (MRS)

↓
under this system RBI have to maintain a minimum reserve of ₹ 200 cr.



Printing of Notes



Demonetization

- w when RBI withdraw the legal tender notice from any currency is called demonetization.
- w In 1934, RBI issued ₹ 500 and ₹ 1000 notes.
- w In 1938, first time ₹ 10,000 note was issued
- w In 1946 → first demonetization (₹ 1000 and ₹ 10,000)

✶ In 1954 → ₹ 1000 and ₹ 10,000 notes were reissued and ₹ 5000 notes was also issued for first time.

✶ In 1978 → ₹ 1000, ₹ 5000, ₹ 10,000 notes demonetized (second demonetization - Hon)

✶ In 2016 → ₹ 500 and ₹ 1000 notes were demonetized and RBI issued ₹ 500 and ₹ 2000 notes.

Reasons for demonetization:

- ① To withdraw black money.
- ② To withdraw the fake currencies
- ③ To stop terrorist funding
- ④ for reducing corruption.
- ⑤ for making digitalisation of economy

Demonetization