MONEY

⊙ What is money?

Money is anything which is generally accepted as a medium of exchange, measure of value, standard of deferred payment and store of value.

Money provides:

(i) medium of exchange

(ii) measurement of value.

(iii) Standard of deferred payment.

(iv) Store of wealth.

⊙ FUNCTIONS OF MONEY

The functions of money can be broadly classified under two categories:

(i) Primary Functions.

(ii) Secondary Functions.

(i) Primary Functions:

Primary functions include the most important functions of money, which it must perform in every country.
These are:

- Medium of Exchange.
- Measure of value / Fixation of values of commodities.

(ii) Secondary Functions:

These functions are supplementary to the primary functions. These are:

- Easy transfer of value.
- Standard of Deferred Payments.
- Store of value for future.

MONEY SUPPLY

Money supply refers to the total volume of money held by public, demand and time deposits with commercial banks and deposit with post offices which can withdraw by depositors at any time.

In India, there are four alternative measure of money supply, popularly known as M_1, M_2, M_3, and M_4 measurement.

(i) M_1 measurement / Concept of Supply of Money:

M_1 is also known as Narrow Concept of Supply of Money.

M_1 consist of currency (paper notes and coins) with the public, demand deposits with banks (commercial and co-operative) and other deposits with the RBI.

M_1 = Currency with the public (C) + Demand Deposits with the Bank (DD) + Other Deposits with RBI (OD)

or

$$\boxed{M_1 = C + DD + OD}$$

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(ii) M_2 Measurement/ Concept of Money Supply:

M_2 is an expansion of M_1 with savings deposits of the post office savings banks. It is less liquid as compared to M_1.

[$M_2 = M_1 +$ Saving deposits with Post office Saving Banks]

(iii) M_3 Measurement/ Concept of Money Supply:

It is a Broader Concept of Money Supply. It includes M_1 alongwith the time deposits with banks.

Thus,

[$M_3 =$ Currency with the Public + Demand Deposits with Banks + Other Deposits with RBI + Time Deposits with Banks]

or,

[$M_3 = M_1 +$ Time Deposits with Banks]

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(iv) M_4 Measurement/ Concept of Supply of Money:

M_4 is an expansion of M_3 with the Total Deposits with Post offices.

[M_4 = Currency with Public + Demand Deposits with Banks + Other Deposits with the RBI + Time Deposits with banks + Total Deposits with Post Offices.]

OR

[M_4 = M_1 + Time Deposits with banks + Total Deposits with Post offices]

OR

[M_4 = M_3 + Total Deposits with Post offices]

⊙ RESERVE MONEY OR HIGH POWERED MONEY

Reserve money is also called base money or high powered money. It can be called govt. money produced by the RBI and is held by the public and the banks. It is really the cash held by the public and the banks.

Reserwe Money (RM) = Currency held by public (C) + Other Deposits of public with RBI (OD) + Cash Reserwe of Bank (CR).

OR

$$[RM = C + OD + CR]$$

⊙ FORMS OF MONEY

(i) Fiat Money : Fiat money refers to that money which is issued by the authority of government.

(ii) Fiduciary Money: Fiduciary money is that money which is accepted as a medium of exchange because of trust between the payer and payee.

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