

VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

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Teacher name – Ajay Kumar Sharma

Revised Notes

11. Narrow definition of money: Functional definition of money is a narrow definition of money. It includes only notes, coins and demand deposits as money. In other words, in its narrow definition, money includes only those things that function as money in terms of:

- (a) Medium of exchange.
- (b) Measure of value.
- (c) Standard of future/Deferred payments.
- (d) Store of value.

12. Broad definition of money:

- (a) A broad definition of money also includes time deposits/term deposits with the banks or post offices as a component of money.
- (b) These deposits can be converted into demand deposits on a short notice, and are “Near money assets”. Money assets and near money assets together make up a definition of money.

Money Supply And Measures Of Money Supply

1. Money supply: The volume of money held by the public at a point of time, in an economy, is referred to as the money supply. Money supply is a stock concept.

2. Measures of money supply: On the recommendation of the second working group on money supply, the RBI presented four measures of money supply in its 1977 issues of RBI Bulletin, namely M_1 , M_2 , M_3 and M_4 .

Measures of M_1 include:

- (a) Currency notes and coins with the public (excluding cash in hand of all commercial banks) [C]
- (b) Demand deposits of all commercial and co-operative banks excluding inter-bank deposits. (DD), Where demand deposits are those deposits which can be withdrawn by the depositor at any time by means of cheque. No interest is paid on such deposits.
- (c) Other deposits with RBI [O.D]

$$M_1 = C + DD + OD$$

Where, Other deposits are the deposits held by the RBI of all economic units except the government and banks. OD includes demand deposits of semi-government public financial institutions (like IDBI, IFCI, etc.), foreign central banks and governments, the International Monetary Fund, the World Bank, etc.

Measures of M_2 :

- (i) M_1 [C + DD + OD]
- (if) Post office saving deposits

Measures of M_3 :

- (i) M_1
- (ii) Time deposits of all commercial and co-operative banks.

Where, Time deposits are the deposits that cannot be withdrawn before the expiry of the stipulated time for which deposits are made. Fixed deposit is an example of time deposit.

Measures of M_4 :

(i) M_3

(ii) Total deposits with the post office saving organization (excluding national savings certificates).

3. High-powered money: High-powered money is money produced by the RBI and the government. It consists of two things: (a) currency held by the public and (b) Cash reserves with the banks.

Words that Matter

1. Barter system: Barter system of exchange is a system in which goods are exchanged for goods.

2. Double coincidence of wants: It means that goods in possession of two different persons must be useful and needed by each other.

3. Money: Money is something which is generally acceptable as a medium of exchange and can be converted into other assets without losing its time and value.

4. Legal definition of money: Legally, money is anything proclaimed by law as a medium of exchange. Paper notes and coins (together called currency) is money as a matter of law.

5. FIAT Money: It is defined as a money which is under the 'FIAT' (order/authority) of the government to act as a money.

6. Functional definition of money: Functional definition of money refers to money as anything that performs four basic functions. (Medium of exchange, standard unit of value, standard of deferred payments, store of value)

7. Narrow definition of money: Functional definition of money is a narrow definition of money. It includes only notes, coins and demand deposits as money.

8. Broad definition of money: A broad definition of money also includes time deposits/ term deposits with the banks or post offices as a component of money.

9. Money Supply: The stock of money held by the public at a point of time, in an economy, is referred to as the money supply. Money supply is a stock concept.

10. High-powered money: It is money produced by the RBI and the government. It consists of two things: (i) currency held by the public and (ii) Cash reserves with the banks.

11. Demand deposits: These are the deposits that can be withdrawn by the depositor at any time by means of cheque. No interest is paid on such deposits.

12. Time deposits: These are the deposits that cannot be withdrawn before the expiry of the stipulated time for which deposits are made. Fixed deposit is an example of time deposit.

13. Other deposit measures of M_1 : Other deposits are the deposits held by the RBI of all economic units except the government and banks. M_1 includes demand deposits of semi-government public financial institutions (like IDBI, IFCI, etc.), foreign central banks and governments, the International Monetary Fund, the World Bank, etc.