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Money and Banking

Money: Money may be defined as anything which is generally acceptable as a medium of exchange and at the same time acts as a measure, store of value and standard of deferred payment.

Functions of Money:

1. Primary Functions

a. Medium of exchange

b. Common measure of value or unit of value

2. Secondary Functions

a. Standard of deferred payment

b. Store of value

c. Transfer of value

3. Contingent Functions

a. Basis of credit

b. Liquidity

c. Basis of price mechanism

d. Maximum profit to the producers

e. Maximum satisfaction to the consumers

f. Basis of distribution of income Barter Exchange: It implies the direct exchange of goods for goods without the use of money.

Difficulties involved in the Barter Exchange:

1. Lack of a common measure of value. 2. Lack of double coincidence of wants

3. Lacks of standard of deferred payments.

4. Lack of store of value.

5. Lack of divisibility.

6. Difficulty in exchange of services

Supply of Money: Total stock of money (currency notes, coins and demand deposit of banks) in circulation are held by the public at a given point of time. Supply of money does not include cash balance held by central and state govt. and stock of money held by banking system of country as they are not in actual circulation of the country. Measures of Money Supply = Currency held by Public + Net Demand Deposits held by commercial banks

M1 = C + DD + OD

C = Currency and coins with the public

DD = Demand deposits of the public with the banks

OD = Other deposits

M2 = M1+ Post office savings deposits

M3 = M1+ Time deposits of commercial banks

M4= M3+ Total deposits with the post office saving organisation excluding the deposits on NSC